The Poverty Reduction & Socio-Economic Development
Trust Fund II (TF071872, TF072685)

Annual Progress Report 2017

Seoul Center for Financial Sector Development:
Strengthening Partnerships and Delivering Results

Finance and Markets Global Practice
THE WORLD BANK GROUP
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## List of Acronyms and Abbreviations

<table>
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<tr>
<th>Acronym</th>
<th>Description</th>
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</thead>
<tbody>
<tr>
<td>AML/CFT</td>
<td>Anti-Money Laundering and Combating the Financing of Terrorism</td>
</tr>
<tr>
<td>ASEAN</td>
<td>Association of Southeast Asian Nations</td>
</tr>
<tr>
<td>BOK</td>
<td>Bank of Korea</td>
</tr>
<tr>
<td>BOL</td>
<td>Bank of the Lao PDR</td>
</tr>
<tr>
<td>BOM</td>
<td>Bank of Mongolia</td>
</tr>
<tr>
<td>BSP</td>
<td>Central Bank of Philippines</td>
</tr>
<tr>
<td>CBM</td>
<td>Central Bank of Myanmar</td>
</tr>
<tr>
<td>CIFIC</td>
<td>Center for International Financial Cooperation (Korea)</td>
</tr>
<tr>
<td>CLMV</td>
<td>Cambodia, Laos, Myanmar, and Vietnam</td>
</tr>
<tr>
<td>DICOM</td>
<td>Deposit Insurance Corporation of Mongolia</td>
</tr>
<tr>
<td>DPO</td>
<td>Development Policy Operation</td>
</tr>
<tr>
<td>EAP</td>
<td>East Asia and the Pacific</td>
</tr>
<tr>
<td>EFI</td>
<td>Equitable Growth, Finance and Institutions Vice Presidency</td>
</tr>
<tr>
<td>F&amp;M</td>
<td>Finance and Markets Global Practice</td>
</tr>
<tr>
<td>FinSAC</td>
<td>Financial Sector Advisory Center</td>
</tr>
<tr>
<td>FIU</td>
<td>Financial Intelligence Unit</td>
</tr>
<tr>
<td>FRC</td>
<td>Financial Regulatory Commission (Mongolia)</td>
</tr>
<tr>
<td>FRD</td>
<td>Financial Regulatory Department (Myanmar)</td>
</tr>
<tr>
<td>FSAP</td>
<td>Financial Sector Assessment Program</td>
</tr>
<tr>
<td>FSC</td>
<td>Financial Services Commission (Korea)</td>
</tr>
<tr>
<td>FSS</td>
<td>Financial Supervisory Service (Korea)</td>
</tr>
<tr>
<td>ISA</td>
<td>Insurance Supervision Agency (Vietnam)</td>
</tr>
<tr>
<td>KAMCO</td>
<td>Korea Asset Management Corporation</td>
</tr>
<tr>
<td>KDIC</td>
<td>Korea Deposit Insurance Corporation</td>
</tr>
<tr>
<td>KoDIT</td>
<td>Korea Credit Guarantee Fund</td>
</tr>
<tr>
<td>KoFIU</td>
<td>Korea Financial Intelligence Unit</td>
</tr>
<tr>
<td>KSD</td>
<td>Korea Securities Depository</td>
</tr>
<tr>
<td>KTF</td>
<td>Poverty Reduction &amp; Socio-Economic Development Trust Fund II</td>
</tr>
<tr>
<td>M&amp;E</td>
<td>Monitoring and Evaluation</td>
</tr>
<tr>
<td>MEF</td>
<td>Ministry of Economy and Finance (Cambodia)</td>
</tr>
<tr>
<td>MOF</td>
<td>Ministry of Finance</td>
</tr>
<tr>
<td>MOJHA</td>
<td>Ministry of Justice and Home Affairs (Mongolia)</td>
</tr>
<tr>
<td>MOLISA</td>
<td>Ministry of Labor - Invalids and Social Affairs (Vietnam)</td>
</tr>
<tr>
<td>MOPF</td>
<td>Ministry of Planning and Finance (Myanmar)</td>
</tr>
<tr>
<td>MOSF</td>
<td>Ministry of Strategy and Finance (Korea)</td>
</tr>
<tr>
<td>MOU</td>
<td>Memorandum of Understanding</td>
</tr>
<tr>
<td>MSME</td>
<td>Micro, Small, and Medium Enterprise</td>
</tr>
<tr>
<td>NBC</td>
<td>National Bank of Cambodia</td>
</tr>
<tr>
<td>NBFI</td>
<td>Non-Bank Financial Institution</td>
</tr>
<tr>
<td>NPS</td>
<td>National Payments Strategy / System</td>
</tr>
<tr>
<td>PA</td>
<td>Programmatic Approach</td>
</tr>
<tr>
<td>PDIC</td>
<td>Philippine Deposit Insurance Corporation</td>
</tr>
<tr>
<td>PNG</td>
<td>Papua New Guinea</td>
</tr>
<tr>
<td>RBS</td>
<td>Risk-Based Supervision</td>
</tr>
<tr>
<td>SSC</td>
<td>State Securities Commission (Vietnam)</td>
</tr>
<tr>
<td>SME</td>
<td>Small and Medium-sized Enterprise</td>
</tr>
<tr>
<td>SOB</td>
<td>State-Owned Bank</td>
</tr>
<tr>
<td>TA</td>
<td>Technical Assistance</td>
</tr>
<tr>
<td>VSS</td>
<td>Vietnam Social Security Fund</td>
</tr>
</tbody>
</table>
HIGHLIGHTS OF 2017

Country and Region specific operational work support through KTF

- With proactive grant management by teams, 2017 was yet another outstanding year for KTF-funded Finance & Markets (F&M) Global Practice (GP) country programs, with the largest number and size of programs being under implementation since the beginning of the trust fund operation. A record-high of $4,625,233 of technical assistance was implemented during the year to support assessments, reforms and capacity building in 10 countries.
- As of end-2017 a total of 17 proposals had been approved cumulatively, covering over 10 countries and 4 regional level initiatives. Eight projects have been completed and nine are ongoing. Since most of the funds were already committed, only one new project was approved in 2017 to support a WBG global initiative on de-risking. The KTF funding complemented WBG resources to support de-risking and correspondent banking relationship assessments in Bangladesh, Philippines, Samoa and Kingdom of Tonga with the support of total grant amount of $145,000.
- Several critical reforms were supported and many diagnostic and advisory services were delivered. Summary of the key deliverables is presented on the next page and details for each grant are presented subsequently.
- Most of the grants are on track to be implemented by the end of 2018. Due to slower than anticipated progress in reforms in Cambodia and delays in implementation of planned activities, this grant is expected to complete implementation in 2019.

Leveraging Korean expertise and institutional capacity through partnerships

- During 2017, 3 new MOUs were signed with Korean partners – Financial Services Commission (FSC), Korea Financial Intelligence Unit (KoFIU) and Korea Deposit Insurance Corporation (KDIC).
- Study visits of government delegations from Myanmar and Cambodia were arranged with Korean partner institutions to learn about Korea’s development experience.
- Experts from Korean partner institutions participated in WBG missions and provided technical assistance and capacity building training in Indonesia, Mongolia and Vietnam.
- Participation in partner knowledge events continued in 2017 to promote better knowledge exchange; notably, in July 2017 Korea Credit Guarantee Fund (KoDIT) provided a speaker to share Korea’s experience at a WB international conference on credit guarantees held in Harare, Zimbabwe.
- Secondment discussions were advanced with Korea Asset Management Corporation (KAMCO) and a secondee / technical expert from KAMCO is expected to join the WBG Korea Office in mid-2018.

Operations of Seoul Center for Financial Sector Development (Seoul Center)

- 2017 was the second full year of Seoul Center’s operation in Korea. The focus of the Seoul Center team in 2017 was to work closely with the MOSF team and Korea Office team to develop the 2nd phase of the partnership – Seoul Center 2.0. In the process, many presentations and supporting documents were prepared and shared with MOSF throughout the year.
- Seoul Center 2.0 was approved by the MOSF in December 2017 and will continue to provide comprehensive operations and complementary funding support for financial sector development in East Asia and Pacific (EAP) region, focusing on financial stability and soundness, an area of comparative advantage for Korea.
• Seoul Center team integrated further into country operations in Mongolia, Myanmar, Philippines and Vietnam and provided technical support for project through missions. The Seoul Center team also continued to provide technical inputs for project and program design as well as supporting implementation support by identifying and connecting appropriate Korean partner institutions.
• To better appraise and understand financial sector vulnerabilities and risk in EAP region, the Seoul Center also supported monitoring work culminated in periodic reports for the EAP F&M GP management and country teams.
• Dialogue with F&M GP centers in Malaysia and Austria (FinSAC) was strengthened. With the recent approval of another round of funding for Seoul Center, FinSAC, and the Malaysia Hub joint work / capacity building activities are under discussion and collaborative activities and events are planned to be initiated in Q4 of 2018.
The table below highlights the key outputs of the KTF-funded operations that were delivered in 2017. Please refer to the main text of the report for details.

<table>
<thead>
<tr>
<th>Country</th>
<th>Key Outputs</th>
</tr>
</thead>
</table>
| **ASEAN** | National Risk Assessment (NRA):  
- Earlier TA enabled Philippines to prepare an NRA update without WBG assistance  
- NRA launched in Lao PDR; Lao PDR de-grey-listed by FATF in June 2017  
- NRA draft report completed in Vietnam |
| **Cambodia** |  
- Three Technical Notes on Risk-Based Supervision (RBS), National Payment System (NPS) and Micro-Insurance Sub-Decree delivered  
- KDIC shared practical experience on deposit insurance and financial safety nets in Seoul (November 2017) |
| **EAP** | Basel II Pillar 2 study:  
- Technical note prepared based on a survey of 10 jurisdictions (including Korea) with the support of FSS secondee  
Case studies in de-risking:  
- Final report published based on case studies from 8 countries – 4 case studies were supported by KTF (Philippines, Tonga, Samoa, and Bangladesh) |
| **Lao PDR** |  
- Lao PDR de-grey-listed by FATF in June 2017  
- Financial Stability Indicators agreed to be calculated on an expanded basis and published externally |
| **Mongolia** |  
- Following WBG technical assistance to the Bank of Mongolia, the National Payment System Law was passed (May 2017)  
- KSD provided a 5-day technical assistance in Ulaanbaatar on improving the securities market clearing and settlement system (April 2017) |
| **Myanmar** |  
- Central Bank issued implementing prudential regulations relating to capital adequacy, liquidity, asset classification, etc., and implemented the new licensing regime for banks based on fit and proper criteria  
- Advice was provided to the Central Bank on its oversight arrangements and capacity building on the implementation of the Mobile Financial Services Regulations  
- Financial Regulatory Department issued new regulations on microfinance  
- FSS hosted a study tour on insurance supervision in Seoul (July 2017) |
| **Philippines** |  
- Framework for reporting NSFI implementation  
- Four Technical Notes delivered on agriculture finance, credit guarantees, MSME ecosystem, and financial cooperatives |
<table>
<thead>
<tr>
<th>Seoul Center</th>
<th>Vietnam</th>
</tr>
</thead>
</table>
| • Phase 2 agreements finalized (December 2017)  
• Substantial progress in partnership activities to support client countries (See Section I)  
• Financial stability monitoring work  
  o Quarterly Financial Sector Monitor  
  o EFI macro-financial initiative:  
  o EAP Regional Update | • Following WBG technical recommendations on key areas of reforms, the government issued Decision 1191 on the Bond Market Development Roadmap 2020 with vision to 2030 (August 2017)  
• New Public Debt Management Law was enacted incorporating WBG comments  
• FSS provided 2-day training in Hanoi on risk-based supervision for securities firms (July 2017)  
• Advice provided for draft Securities Law, complemented by technical notes on (i) Policy and Supervision of Public Companies and (ii) Governance and Legal Framework for Securities Exchanges |
ABOUT SEOUL CENTER AND THE PARTNERSHIP

BEGINNING OF THE PARTNERSHIP

The Ministry of Strategy and Finance (MOSF) of the Republic of Korea and the World Bank Group’s then Financial and Private Sector Development (FPD) Department agreed on October 11, 2011 to establish the Seoul Center for Financial Sector Development (Seoul Center) partnership. MOSF subsequently provided a trust fund to be governed by an Administration Agreement signed with the World Bank on June 25, 2012. The first phase of the KTF was in operation for five years, from 2012 to 2017, under the management of WB Finance & Markets (F&M) Global Practice (GP) and has since been extended to December 31, 2020 with the finalization of agreements on the Seoul Center 2.0 (2017-2020).

The objective of the Korean Trust Fund is to improve and develop financial sectors in the East Asia and Pacific (EAP) Region by delivering better technical assistance and advisory services. It was established to

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1 The WB Financial and Private Sector Development Department was reorganized as the Finance & Markets Global Practice in 2014, and reorganized as the Finance, Competitiveness & Innovation Global Practice as of January 1, 2018.

2 In May 2017 the trust fund end-disbursement date was extended to December 31, 2018 to allow for continuity between Phase 1 and Phase 2 of the trust fund.
provide financing for activities clustered around the following themes (i) Mitigating financial crises, (ii) Meeting international standards, (iii) Balancing the role of state financial systems, (iv) Developing capital markets, (v) Improving financial inclusion, (vi) Deepening Asian regional integration, (vii) Financing sustainable growth, and (viii) Monitoring, reporting, and evaluation. Based on lessons learned in the implementation of the first phase (Seoul Center 1.0) and current and expected client demand in financial sector, these themes have been updated for the launch of the Seoul Center 2.0.

**LEVERAGING SEOUL CENTER TO SUPPORT FINANCIAL SECTOR DEVELOPMENT IN EAP**

In the EAP region, F&M’s priorities are: (i) enhancing the stability of financial systems, (ii) improving financial inclusion and infrastructure, and (iii) supporting development finance initiatives, to address the region-specific challenges in the financial sector. The Seoul Center, established to support these priorities, was operated as a virtual pilot for the first two years and subsequently took presence in the WBG Korea Office in the fall of 2015, now housing two F&M technical staff. The team continues to build on the current F&M portfolio, participating more extensively in projects (see table below). The Seoul Center team has also been strengthening the partnership between the WBG and the Korean counterparts in the financial sector to support country programs and client-demanded engagements in the EAP region by sharing knowledge, expertise, and lessons from Korea’s successful development experience.

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**Seoul Center for Financial Sector Development 2012-17**

**Operational Engagements -- Technical support from Seoul Center**

<table>
<thead>
<tr>
<th>Seoul Center Korea Office - Contribution to Operational Engagements</th>
<th>ASEAN National Assessments</th>
<th>Basel II Pillar 2 Toolkit</th>
<th>Cambodia Programmatic Approach (PA)</th>
<th>Mongolia PA</th>
<th>Myanmar PA</th>
<th>Vietnam NBF</th>
</tr>
</thead>
<tbody>
<tr>
<td>Project Concept Design</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Detailed Review and advise to Country + GP Management</td>
<td>+</td>
<td>+</td>
<td>+</td>
<td>+</td>
<td>+</td>
<td>+</td>
</tr>
<tr>
<td>Monitoring and evaluation framework set up</td>
<td>+</td>
<td>+</td>
<td>+</td>
<td>+</td>
<td>+</td>
<td>+</td>
</tr>
<tr>
<td>Application for KTF and processing</td>
<td>+</td>
<td>+</td>
<td>+</td>
<td>+</td>
<td>+</td>
<td>+</td>
</tr>
<tr>
<td>Direct project/ mission participation</td>
<td></td>
<td></td>
<td>Planned</td>
<td>+</td>
<td>Planned</td>
<td>+</td>
</tr>
<tr>
<td>Connecting to Korean Expertize</td>
<td>+</td>
<td>+</td>
<td>+</td>
<td>+</td>
<td>+</td>
<td>+</td>
</tr>
<tr>
<td>Implementation support</td>
<td>+</td>
<td>+</td>
<td>+</td>
<td>+</td>
<td>+</td>
<td>+</td>
</tr>
<tr>
<td>Communicating Lessons and Results (at completion)</td>
<td>Planned</td>
<td>Planned</td>
<td>Planned</td>
<td>Planned</td>
<td>Planned</td>
<td>Planned</td>
</tr>
</tbody>
</table>
SECTION I:

SEOUL CENTER ACTIVITIES IN 2017
### TRUST FUND FINANCIAL SUMMARY

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Contributions Received (2012-2016 inclusive)</td>
<td>15,867,052 USD</td>
</tr>
<tr>
<td>(+) Investment Income</td>
<td>221,908</td>
</tr>
<tr>
<td>(-) Allocation to Country / Regional Projects and Seoul Center Operations</td>
<td>15,316,095</td>
</tr>
<tr>
<td>(-) Administrative Fees</td>
<td>688,982</td>
</tr>
<tr>
<td>Remaining KTF Funds (to be rolled over to KTF Phase 2)</td>
<td>83,882</td>
</tr>
</tbody>
</table>

#### KTF Allocations by Recipient Country

- Myanmar: 23.8%
- Mongolia: 9.4%
- Vietnam: 9.0%
- Cambodia: 9.4%
- Korea: 9.5%
- East Asia and Pacific: 8.9%
- China: 9.0%
- Laos: 7.5%
- Philippines: 5.2%
- Papua New Guinea: 3.1%
- Thailand: 3.9%
- Indonesia: 2.6%
- Cambodia: 2.1%
**Focus on implementing ongoing technical assistance and reforms:** With one new program (Case Studies in De-Risking) receiving KTF allocations of $145,000, the focus in 2017 was to continue implementing the existing programs with an aim to finish in 2018. Also, $575,000 was additionally allocated to the Seoul Center for Korean partnership activities and staff cost.

**Proactive trust fund management for more effective delivery:** With the ongoing trust-funded programs coming to closure in a couple of years, the Seoul Center team worked with each task team to assess progress vis-à-vis the original plans and allocations, clawed-back funds from certain programs that had over-budgeted and made additional allocations for programs that were delivering at a fast pace and had larger needs from the client country. Such reallocations, as communicated and agreed with MOSF, helped ensure that the limited resources are used where they are needed the most. Also, in May 2017 the Seoul Center team worked with the Ministry to extend the end-disbursement date of the trust fund from December 31, 2017 to December 31, 2018, to allow for better planning and use of the funds.
## KTF – Financial Status by Project (accumulated as of December 31, 2017)

<table>
<thead>
<tr>
<th>Project Name</th>
<th>Country</th>
<th>Project Closing</th>
<th>Grant Amount</th>
<th>Disbursements</th>
<th>Outstanding Commitments</th>
<th>Available Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indonesia Crisis Simulation Framework</td>
<td>Indonesia</td>
<td>3/7/2014</td>
<td>314,063</td>
<td>314,063</td>
<td></td>
<td></td>
</tr>
<tr>
<td>China Financial Consumer Protection and Financial Literacy</td>
<td>China</td>
<td>8/31/2015</td>
<td>456,756</td>
<td>456,756</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Thailand: Solvency Modernization and Risk Based Capital</td>
<td>Thailand</td>
<td>5/15/2015</td>
<td>399,282</td>
<td>399,282</td>
<td></td>
<td></td>
</tr>
<tr>
<td>TA to the Implementation of PNG Financial Competency Survey</td>
<td>PNG</td>
<td>11/30/2015</td>
<td>474,661</td>
<td>474,661</td>
<td></td>
<td></td>
</tr>
<tr>
<td>East Asia Regional Financial Integration</td>
<td>Region</td>
<td>10/16/2015</td>
<td>385,115</td>
<td>385,115</td>
<td></td>
<td></td>
</tr>
<tr>
<td>National Risk Assessment ASEAN(^1)</td>
<td>Region</td>
<td>8/31/2018</td>
<td>498,000</td>
<td>454,078</td>
<td></td>
<td>43,922</td>
</tr>
<tr>
<td>Basel II Pillar 2 Implementation Toolkit(^2)</td>
<td>Region</td>
<td>6/30/2018</td>
<td>340,000</td>
<td>239,241</td>
<td></td>
<td>100,759</td>
</tr>
<tr>
<td>Myanmar: Scaling Up Financial Services for the Poor(^3)</td>
<td>Myanmar</td>
<td>8/31/2018</td>
<td>3,652,400</td>
<td>3,258,024</td>
<td>207,097</td>
<td>187,278</td>
</tr>
<tr>
<td>Cambodia: Financial Sector Development TA</td>
<td>Cambodia</td>
<td>8/31/2018</td>
<td>1,442,600</td>
<td>883,840</td>
<td>73,140</td>
<td>485,620</td>
</tr>
<tr>
<td>Mongolia: Financial Sector Development Support Program(^4)</td>
<td>Mongolia</td>
<td>8/31/2018</td>
<td>1,920,000</td>
<td>1,509,850</td>
<td>127,584</td>
<td>282,566</td>
</tr>
<tr>
<td>Vietnam: Capital Markets and NBFI Development</td>
<td>Vietnam</td>
<td>8/31/2018</td>
<td>1,460,000</td>
<td>1,011,678</td>
<td>207,088</td>
<td>241,234</td>
</tr>
<tr>
<td>PH Financial Development and Inclusion</td>
<td>Philippines</td>
<td>8/31/2018</td>
<td>600,000</td>
<td>147,618</td>
<td>20,084</td>
<td>432,298</td>
</tr>
<tr>
<td>Lao PDR: Financial Sector Development(^5)</td>
<td>Lao PDR</td>
<td>8/31/2018</td>
<td>800,000</td>
<td>395,291</td>
<td>99,257</td>
<td>305,452</td>
</tr>
<tr>
<td>Case Studies in De-Risking</td>
<td>Region</td>
<td>8/31/2018</td>
<td>145,000</td>
<td>138,440</td>
<td>5,652</td>
<td>908</td>
</tr>
<tr>
<td>Seoul Center Operations and Knowledge</td>
<td>Korea</td>
<td>8/31/2018</td>
<td>1,375,000</td>
<td>1,076,010</td>
<td>1,963</td>
<td>297,027</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td><strong>15,316,095</strong></td>
<td><strong>12,197,166</strong></td>
<td><strong>741,865</strong></td>
<td><strong>2,377,064</strong></td>
</tr>
</tbody>
</table>

*1: Clawed back $400,000 / *2: Clawed back $600,000 / *3: Allocated additional 352,400 / *4: Allocated additional $450,000 / *5: Allocated additional $200,000
**Continued strong delivery of KTF-funded activities**: As in the previous calendar year, the KTF-funded programs were delivered at full speed, recording a high level of disbursements for two consecutive years with the largest number and size of programs under implementation since the beginning of the KTF operation. A total of $4,625,233 was disbursed in 2017 to provide critical technical assistance in the EAP region. The chart and table below show the disbursements by calendar year.

The chart and table below show the disbursements by calendar year.

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Staff Costs</strong></td>
<td>512,401</td>
<td>487,818</td>
<td>279,918</td>
<td>2,904,391</td>
<td>2,369,570</td>
</tr>
<tr>
<td><strong>Consultant Fees</strong></td>
<td>74,029</td>
<td>775,844</td>
<td>344,736</td>
<td>600,871</td>
<td>1,059,171</td>
</tr>
<tr>
<td><strong>Travel Expenses</strong></td>
<td>144,730</td>
<td>234,635</td>
<td>99,087</td>
<td>872,255</td>
<td>964,057</td>
</tr>
<tr>
<td><strong>Media, Workshop</strong></td>
<td>40,775</td>
<td>3,428</td>
<td>7,072</td>
<td>89,626</td>
<td>98,018</td>
</tr>
<tr>
<td><strong>Associated Overhead</strong></td>
<td>7,368</td>
<td>7,633</td>
<td>5,068</td>
<td>64,735</td>
<td>111,112</td>
</tr>
<tr>
<td><strong>Contractual Services</strong></td>
<td>1,994</td>
<td>112</td>
<td>91</td>
<td>13,317</td>
<td>23,306</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>781,297</td>
<td>1,509,469</td>
<td>735,973</td>
<td>4,545,195</td>
<td>4,625,233</td>
</tr>
</tbody>
</table>

Disbursement and implementation of KTF-funded activities became significantly higher after Seoul Center became operational in Korea.
**KTF SUPPORT – EAP COUNTRY AND REGIONAL OPERATIONS**

**SUMMARY**

- A total of 17 KTF proposals for country or regional support have been approved as of end of 2017. This represents 10 countries and 4 regional initiatives. Out of the 17 projects, 8 are completed and the other 9 projects are under implementation, to be finalized during calendar year 2018.

- Since 2015, the WBG F&M has been responding to client demand through multi-year Programmatic Approach (PA) programs which allow for more strategic and comprehensive country engagements. Accordingly, the funding requests for KTF support have been more comprehensive and spanning longer timeframes (thus also larger in amount). This has responded well to MOSF’s recommendation to develop larger proposals addressing strategic reforms and aiming for stronger impact in EAP countries.
<table>
<thead>
<tr>
<th>Project</th>
<th>Country</th>
<th>Grant (USD)</th>
<th>Objective</th>
<th>Timeframe</th>
</tr>
</thead>
<tbody>
<tr>
<td>Crisis Simulation Framework</td>
<td>Indonesia</td>
<td>370,000</td>
<td>To contribute to the promotion of a sound and stable financial sector in Indonesia through improved capacity of financial authorities to prevent, manage, and resolve financial crises</td>
<td>Mar 2013 – Mar 2014</td>
</tr>
<tr>
<td>Financial Reform Strategy Report</td>
<td>China</td>
<td>480,000</td>
<td>To design and implement far-reaching and fundamental financial reforms to China’s financial system</td>
<td>Mar 2013 – Feb 2014</td>
</tr>
<tr>
<td>Solvency Modernization &amp; Risk-Based Capital</td>
<td>Thailand</td>
<td>420,000</td>
<td>To assist the financial authorities to improve risk-based supervision and dynamic solvency regimes for insurance, including the legal/regulatory framework, tools, and market practices</td>
<td>Jul 2013 – May 2015</td>
</tr>
<tr>
<td>TA to the Implementation of Financial Competency Survey</td>
<td>Papua New Guinea</td>
<td>475,000</td>
<td>To assist the PNG financial authorities to develop a baseline for understanding the financial capability of the PNG population</td>
<td>Jul 2013 – Nov 2015</td>
</tr>
<tr>
<td>Capital Market Development TA</td>
<td>Mongolia</td>
<td>350,000</td>
<td>To support the Mongolian authorities in developing robust deep capital markets</td>
<td>Sep 2013 – Dec 2015</td>
</tr>
<tr>
<td>East Asia Regional Financial Integration</td>
<td>Regional</td>
<td>450,000</td>
<td>To support economic growth and poverty reduction through the expansion of investments and financing under the ASEAN agenda of financial integration</td>
<td>Dec 2013 – Oct 2015</td>
</tr>
<tr>
<td>Evaluation System for Consumer Financial Education</td>
<td>China</td>
<td>250,000</td>
<td>To assist the Chinese financial authorities to develop a system for evaluating the effectiveness of consumer financial capability programs</td>
<td>Mar 2014 – Dec 2015</td>
</tr>
<tr>
<td>National Risk Assessment ASEAN</td>
<td>Regional</td>
<td>498,000</td>
<td>To help ASEAN countries improve the effectiveness of detecting and preventing financial crimes and illicit financial flows</td>
<td>Apr 2015 – ongoing</td>
</tr>
<tr>
<td>Project</td>
<td>Country</td>
<td>Grant (USD)</td>
<td>Objective</td>
<td>Timeframe</td>
</tr>
<tr>
<td>----------------------------------------------------------------------</td>
<td>------------</td>
<td>-------------</td>
<td>-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
<td>--------------------</td>
</tr>
<tr>
<td>Basel II Pillar 2 Implementation Toolkit</td>
<td>Regional</td>
<td>340,000</td>
<td>To develop a study for the use of banking supervisors based on a sample of client jurisdictions to understand the effectiveness of their Basel II implementation</td>
<td>Oct 2015 -- ongoing</td>
</tr>
<tr>
<td>Scaling up Financial Services for the Poor (PA)</td>
<td>Myanmar</td>
<td>3,652,400</td>
<td>To help increase access to financial services by the poor in Myanmar through a wide range of advisory services</td>
<td>Sep 2015 - ongoing</td>
</tr>
<tr>
<td>Financial Sector Development TA (PA)</td>
<td>Cambodia</td>
<td>1,442,600</td>
<td>To support the Cambodian financial authorities in core areas of financial sector modernization and reform</td>
<td>Jan 2016 - ongoing</td>
</tr>
<tr>
<td>Financial Sector Development Support (PA)</td>
<td>Mongolia</td>
<td>1,920,000</td>
<td>To support building a sound, diversified, and inclusive financial system for Mongolia through a wide range of advisory services</td>
<td>Apr 2016 - ongoing</td>
</tr>
<tr>
<td>Capital Markets and NBFI Development (PA)</td>
<td>Vietnam</td>
<td>1,460,000</td>
<td>To support the Vietnamese financial authorities to leverage capital markets and Non-Bank Financial Institutions for economic development</td>
<td>Sep 2016 - ongoing</td>
</tr>
<tr>
<td>Financial Development and Inclusion (PA)</td>
<td>Philippines</td>
<td>600,000</td>
<td>To support the Philippines‘ development of the financial system and financial inclusion</td>
<td>Sep 2016 - ongoing</td>
</tr>
<tr>
<td>Financial Sector Development (PA)</td>
<td>Lao PDR</td>
<td>800,000</td>
<td>To promote the development of a more stable and efficient financial sector in Lao PDR through advisory services</td>
<td>Sep 2016 - ongoing</td>
</tr>
<tr>
<td>Case Studies in De-Risking</td>
<td>Regional</td>
<td>145,000</td>
<td>To document the effects of de-risking on local communities and work with partners to develop solutions for those affected to maintain access to financial services</td>
<td>March 2017 - ongoing</td>
</tr>
</tbody>
</table>
An important objective of the WBG and MOSF partnership is to leverage the expertise and capacity of Korean institutions to support country needs and enhance / deepen the delivery of assistance to the client countries. **At the end of 2017 the WBG had formal MOUs with 9 key Korean institutions**, which have added value to the F&M teams and the client countries in their respective areas of expertise. These 9 partners are noted in the chart below.

**Three new MOUs were signed in 2017**, with Korea Deposit Insurance Corporation (KDIC), Financial Services Commission (FSC), and Korea Financial Intelligence Unit (KoFIU). Details of these MOUs can be found in Annex 1.

While the partnerships relied on formal MOUs during the time the trust fund was operated from the WBG headquarters in Washington DC, the staffing of the Seoul Center team in Korea in the 2nd half of 2015 has enabled more direct, frequent, and effective interactions and communication with Korean partners on the ground. Much progress has been made with all the formal and informal partnerships (12+ partners so far, including MOSF) to connect these institutions with specific country needs in the EAP region in particular.
PARTNERSHIP ACTIVITIES

The chart below lists the connections and partnerships made and progress in leveraging these partners to support WBG client countries in EAP.

<table>
<thead>
<tr>
<th>Financial Stability &amp; Integrity</th>
<th>Cambodia</th>
<th>China</th>
<th>Indonesia</th>
<th>Lao PDR</th>
<th>Mongolia</th>
<th>Myanmar</th>
<th>Philippines</th>
<th>PNG</th>
<th>Thailand</th>
<th>Vietnam</th>
<th>Korea</th>
</tr>
</thead>
<tbody>
<tr>
<td>THE BANK OF KOREA</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✓</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
</tr>
<tr>
<td>Korea Deposit Insurance Corporation</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✓</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
</tr>
</tbody>
</table>

Financial Inclusion & Infrastructure

<table>
<thead>
<tr>
<th>Financial Inclusion &amp; Infrastructure</th>
<th>Cambodia</th>
<th>China</th>
<th>Indonesia</th>
<th>Lao PDR</th>
<th>Mongolia</th>
<th>Myanmar</th>
<th>Philippines</th>
<th>PNG</th>
<th>Thailand</th>
<th>Vietnam</th>
<th>Korea</th>
</tr>
</thead>
<tbody>
<tr>
<td>KOT</td>
<td>✔</td>
<td>✔</td>
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<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✓</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
</tr>
<tr>
<td>Financial Services Commission</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
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<td>✓</td>
<td>✔</td>
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<td>✔</td>
</tr>
</tbody>
</table>

Long-Term Finance

<table>
<thead>
<tr>
<th>Long-Term Finance</th>
<th>Cambodia</th>
<th>China</th>
<th>Indonesia</th>
<th>Lao PDR</th>
<th>Mongolia</th>
<th>Myanmar</th>
<th>Philippines</th>
<th>PNG</th>
<th>Thailand</th>
<th>Vietnam</th>
<th>Korea</th>
</tr>
</thead>
<tbody>
<tr>
<td>CIFIC</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
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<td>✓</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
</tr>
</tbody>
</table>

The table below describes the partnership activities carried out during 2017 in more detail.

<table>
<thead>
<tr>
<th>Partner</th>
<th>Subject Countries</th>
<th>Partnership Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>THE BANK OF KOREA</td>
<td>All</td>
<td>• Senior management meeting between WBG F&amp;M and BOK to reaffirm and strengthen the partnership (Jun 2017)</td>
</tr>
<tr>
<td>CIFIC</td>
<td>All</td>
<td>• Seoul Center team participated in CIFIC’s annual international conference (Dec 2017)</td>
</tr>
</tbody>
</table>
| Financial Services Commission | All | • Senior management meeting between WBG F&M and FSC to strengthen the partnership (Jun 2017)  
• MOU was signed to agree on collaboration in knowledge sharing and technical assistance for WBG client countries on all areas of the financial sector (Dec 2017) |
<table>
<thead>
<tr>
<th>Partner</th>
<th>Subject Countries</th>
<th>Partnership Activities</th>
</tr>
</thead>
</table>
| Vietnam | Myanmar | • 2 experts from FSS provided 2-day training for Vietnam’s State Securities Commission on risk-based supervision in Hanoi (Jul 2017)  
• FSS hosted a study tour for Myanmar’s Financial Regulatory Department on insurance supervision in Seoul (Jul 2017)  
• Seoul Center expert spoke at FSS-organized international seminar on FinTech in Seoul (Nov 2017) |
| All | • Discussing MOU (planned for early 2018) and KAMCO staff secondment to the WBG Korea Office |
| All | • Searching for potential collaboration opportunities |
| Lao PDR | Cambodia | • Held meeting and discussions between Lao F&M team and KDIC on their respective TAs for Lao PDR’s Depositor Protection Fund on IT systems (Jul 2017 onwards)  
• KDIC hosted a study tour for the National Bank of Cambodia and the Ministry of Economy & Finance in Seoul (Nov 2017)  
• 5 experts from KDIC provided a 3-day training for the Indonesian Deposit Insurance Corporation in Jakarta (Dec 2017)  
[http://www.kdic.or.kr/media/bodo_view.do?ser_no=54319&cPage=1&tbl=bodo](http://www.kdic.or.kr/media/bodo_view.do?ser_no=54319&cPage=1&tbl=bodo)  
• MOU was signed to agree on collaboration in technical assistance for WBG client countries on financial safety nets and deposit insurance (Sep 2017) |
| All | • Periodic discussion and discussion on potential collaboration opportunities (also as part of the CIFC engagements) |
| Mongolia | • The Seoul Center team worked with KSD to dispatch two experts to provide a week-long technical support to the Mongolian Securities Clearing Company in Ulaanbaatar (Apr 2017)  
• Discussing additional potential engagements |
<table>
<thead>
<tr>
<th>Partner</th>
<th>Subject Countries</th>
<th>Partnership Activities</th>
</tr>
</thead>
</table>
| KoDI    | Africa region + Philippines | • KoDI provided a speaker at a WB international conference on credit guarantees held in Harare, Zimbabwe (July 2017)  
• Discussing a potential engagement in the Philippines |
| KoFIU   | All               | • MOU was signed to agree on collaboration in knowledge sharing and technical assistance for WBG client countries on AML/CFT issues (Dec 2017) |
LAUNCH OF SEOUL CENTER 2.0

During 2017 the Seoul Center team focused primarily on working closely with MOSF to discuss and agree on the design of Phase 2 of the partnership. This entailed countless working-level and management-level meetings in Sejong, Seoul, and Washington DC, supported by different proposals, briefs, and notes throughout the whole year, as the circumstances surrounding the Ministry’s strategic priorities and budget situation evolved over time, especially due to the change of government during the year. After nearly a year and a half of discussions and negotiations, WBG F&M and MOSF finally agreed on and signed an amended trust fund administration agreement in December 2017 for Phase 2 of the partnership.

Phase 2 of the partnership spans 3 years, from December 2017 to April 2021, with a level of funding similar to that of Phase 1. The trust fund will continue to support critical reforms in the financial sectors of EAP countries through WBG advisory services and analytics, with more focus on financial stability and integrity,
long-term finance, and innovation. The following are the topical areas of Phase 2 of the Korean trust fund, as agreed in the trust fund agreement:

- Monitoring and addressing systemic risk and vulnerabilities
- Building resilient financial institutions and financial infrastructure
- Aligning legal, regulatory, and supervisory frameworks with international standards
- Improving resolution regimes and policies, enhancing crisis preparedness and strengthening financial safety nets
- Supporting financial integrity initiatives
- Fostering capital markets and other long-term finance
- Promoting innovative financial products and services

**KNOWLEDGE GENERATION AND SHARING**

In addition to the country programs and partnership activities described in the previous sections, the Seoul Center team also supported smaller-scale initiatives and work programs for F&M, to generate and share knowledge.

- **Macro-financial monitoring**

  The Seoul Center provided partial financial support for F&M’s financial stability monitoring work, which comprises of the following activities:

  a. **Quarterly Financial Sector Monitor:** F&M has a platform in place, jointly developed with the IFC, to produce the ‘Quarterly Financial Sector Monitor’ series for the EAP region. This monitor aims to have candid presentation of the recent developments and short-term prospects in EAP financial sectors, and therefore has a confidential nature and is intended for WBG internal purposes.

  b. **EFI macro-financial initiative:** F&M also carries out semiannual financial sector assessments on systemically important issues for EAP. This serves as input for a confidential publication on regional macro-financial issues led by the offices of the EFI-VP in conjunction with the two Senior Directors for Financial Sector and Macro-Fiscal. This publication is circulated ahead of Spring and Annual meetings.

  c. **EAP Regional Update:** F&M produces input on financial sector issues for the EAP Regional Update that is published by the office of the Chief Economist for Spring and Annual meetings.

  d. **China stability call:** F&M participates in monthly calls on macro-financial issues in China, providing updates on financial sector developments and risks. Given the regional and global systemic importance of China, it is important to be up-to-date on possible negative developments and take into consideration the spill-over risks for the rest of the region.
Support for client engagement in the Pacific islands

The Seoul Center provided financial support for F&M to facilitate its efforts to develop new client engagements in the Pacific islands. At the Annual Meeting of the Association of Financial Supervisors of the Pacific countries (AFSPC) in Rarotonga, Cook Islands, in August 2017, two areas for potential TA from WBG were discussed, as described below.

- Introduction of International Financial Reporting Standards (IFRS): There are significant capacity problems with the prudential supervisor and the smaller banks in all Pacific countries and the introduction of IFRS will have an impact on financial sector supervision, especially on the calculation of prudential ratios and loan loss provisions.

- Reporting systems: Prudential reporting in the Pacific is generally done using Excel spreadsheets. The participating authorities were eager to explore the use of more harmonized regional reporting systems. This would limit compliance costs for banks and facilitate exchange of supervisory information across supervisory authorities. It was agreed that a working group would be set up to explore RegTech and SupTech opportunities for the Pacific region.
SECTION II:
DETAILED RESULTS OF KTF-FUNDED OPERATIONS IN 2017
SECTION II: DETAILED RESULTS OF KTF-FUNDED OPERATIONS IN 2017

RESULTS AND PROGRESS OF KTF PROGRAMS UNDER IMPLEMENTATION

**ASEAN: NATIONAL RISK ASSESSMENT**

<table>
<thead>
<tr>
<th>Grant amount: USD 498,000</th>
<th>Project Duration: April 2015 – August 2018</th>
</tr>
</thead>
</table>

| Team Leader | Stuart Yikona |

| Team Members (in alphabetical order) | Keesook Viehweg, Kevin Stephenson, Kiyotata Tanaka, Laura Pop, Leonora Emini, Lisa Bostwick, Maria Da Silva Pereira, Nigel Bartlett, Priyani Malik, Rideca Duarte, Seunghwan Park, Syed Hassan, Vidaovanh Phounvixay |

**Context**

With the expansion of ASEAN membership to the Mekong countries (Cambodia, Laos, Myanmar, and Vietnam, “CLMV”) in the 1990s, ASEAN now encompasses high-, middle-, and low-income countries. Among them, the CLMV countries are at significant risk of money laundering and financing of terrorism (ML/FT) issues and the abuse of their economies threatens sustainable growth in the future. Their regional environment and the weaknesses of their legal system constitute substantial concerns and make them susceptible to proceed generating criminal activities. Cambodia and Myanmar have already asked for the technical assistance of the WB, and early WB engagement with Lao and Vietnam is taking place. This project is part of a broader collaboration with the ASEAN countries on issues related to anti-money laundering and combating the financing of terrorism (AML/CFT).

**Project Objective**

The project helps improve the effectiveness of some of the countries in the ASEAN region to detect illicit financial flows, investigating and prosecuting financial crime such as corruption, tax evasion, and fraud. The results/indicators for the activity will be measured by the following: (1) Some of the ASEAN countries have a detailed and comprehensive report that identifies and analyzes the proceeds of crime in the country and identifies the key vulnerabilities of law enforcement agencies to investigate and prosecute financial crime; (2) Some of the ASEAN countries officially adopts concrete time bound action plan that is endorsed by the government through appropriate processes such as a national coordination committee on anti-money laundering and terrorism financing or at cabinet level.; and (3) 50-60 key experts from the judicial, law enforcement, financial regulators and senior policy makers are trained on how to identify the money laundering and terrorism financing risks and vulnerabilities facing some of the ASEAN countries.
The WB and the FATF Training and Research Institute (TREIN)\(^3\) jointly organized a regional ASEAN Risk Assessment Workshop and AML/CFT Training Program in Busan, Korea, from March 27-30. The objective of the workshop was to share country experiences on the progress being made in implementing respective country action plans arising out of the risk assessments completed and/or to be completed. The workshop focused on practitioner/operational officials involved in implementing the action plans, entailing panel presentations/discussions around selected themes that track issues identified in the risk assessments undertaken by countries in the ASEAN region. Working-level staff from Korea Financial Intelligence Unit (KoFIU), National Tax Service, and Korea Customs Service also actively participated in the workshop.

The workshop was featured on the WB and FATF-TREIN websites, with links below (see Annex 2):


The Philippines:

The Government of the Philippines conducted an update of their national risk assessment in October 2017. This follows the completion of the first national risk assessment in May 2016. However, in respect of the update, the World Bank Group was not involved in providing advisory support. The fact that the Philippines could carry out the update without World Bank Group support reflects the sustainability

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\(^3\) FATF TREIN was established in 2016 with the support of the Government of Korea, represented by the Korea Financial Intelligence Unit (KoFIU).
achieved with the earlier support. Indeed, this appears to be the case with respect to the other countries being supported under this project.

**Lao PDR:**

2017 began with a two-day NRA awareness raising workshop in January, with around 50 participants from the various stakeholder ministries. A video conference was held in May with the NRA module team-leaders, followed by an NRA kick-off workshop during July 4-7, which included a day on financial inclusion, and a follow-up video conference in October. There has been good progress made by the Government of Lao PDR in completing their risk assessment. After concerted efforts by BOL’s AML Intelligence Office (AMLIO), including TA from WB and the UNODC, Lao PDR was de-grey-listed by FATF in June 2017, and is scheduled for a Mutual Evaluation in 2020. An NRA would be critical in Lao’s transition to the more risk-based post-2012 FATF standard.

Moreover, in January 2018 an interim workshop was held at which members of the working group presented preliminary findings of the analysis of the data collected. Approximately 48 members of the working group participated. The presentations shared and discussions with the World Bank Group team reflected a satisfactory knowledge and understanding of how to conduct a credible risk assessment. AMLIO is now aiming to complete their draft NRA report by May 2018.

**Vietnam:**

The support to Vietnam continued during 2017, albeit at a slower pace than planned. While the expectation was that the risk assessment work would be completed in the first quarter of 2018, there has been slippage in the timeline agreed. Nevertheless, a draft report was completed and translated into English, and the World Bank Group provided detailed comments on the report. The Government of Vietnam will revise the draft report and incorporate World Bank Group comments as appropriate. A final workshop to finalize the draft report and review the Action Plan for follow up work on the findings of the risk assessment will be held in Hanoi, Vietnam in June 2018.
EAP: BASEL II PILLAR 2 IMPLEMENTATION TOOLKIT

Grant amount: USD 340,000  Project duration: October 2015 – June 2018

<table>
<thead>
<tr>
<th>Team Leader</th>
<th>Ana Maria Aviles (current), Laura A. Ard (former), Damodaran Krishnamurti (former)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Team Members</td>
<td>Brian Kwok Chung Yee, Cristina Pailhé, Jiemin Ren, Koo Han, Matei Dohotaru, Pierre-Laurent Chatain, Sang Man Park</td>
</tr>
</tbody>
</table>

**Context**

The Basel Committee on Banking Supervision (BCBS) issued a comprehensive revised capital adequacy framework in 2004 (known more popularly as Basel II), which was designed to be more risk-sensitive than the Basel I framework. Basel II has three pillars: Pillar 1 – prudent capital regulation; Pillar 2 – supervisory review, and Pillar 3 – market discipline. Pillar 2 involves two main steps – (a) requiring banks to maintain an internal capital adequacy assessment process (ICAAP) and complying with the internal targets; and (b) supervisory evaluation of how well banks are assessing their capital needs relative to all risks incurred by the bank. Pillar 2 implementation is mandatory and critical to the effective implementation of Basel II. Within Pillar 2, some jurisdictions have progressed on part (a) above, but very few have progressed on implementation of part (b). This offers a vast potential for providing technical assistance in this specialized area to client authorities.
**Project Objective**

The objective of this project is to undertake a study of Basel II Pillar 2 practices in selected countries to assist jurisdictions in their goal towards further implementation of international capital standards.

**Progress**

The WB conducted a country-based study of Pillar 2 practices in selected countries to obtain information about their implementation of international capital standards. As a basis for the work, the WB designed a questionnaire, with contribution from the secondee from Korea’s FSS, to:

(i) Collect information regarding how the ICAAP has been approached by supervisors and the expectations they have therein; and

(ii) Understand how supervisors consider and respond to bank-submitted reported ICAAP documents (the SREP).

Twelve countries were surveyed and ten responded, including Korea. A draft technical note was produced based on the responses to the country surveys. The document presents an analysis of countries’ responses aiming at helping supervisors identify common practices, challenges, and lessons from Pillar II implementation. As a by-product, it can contribute to constructive supervisory discussions with the banks regarding their direction and progress in implementing standards. It also indicates, at a high level, the range of practices and nuances therein. The paper builds on responses provided by the surveyed jurisdictions and information was cross-checked with the legislation and with documents provided by the respondents.

The technical note will undergo an internal review meeting chaired by a member of the management team. Given the value and relevance of this work, the paper may be published, with an aim to finalize the public document by mid-2018.
**MYANMAR: SCALING UP FINANCIAL SERVICES FOR THE POOR**

**Grant amount:** USD 3,652,400  
**Project duration:** September 2015 – August 2018

<table>
<thead>
<tr>
<th>Team Leader</th>
<th>Wong, Sau Ngan &amp; Wagh, Smita (current); Drees-Gross, Alexandra (former)</th>
</tr>
</thead>
</table>

**Team Members**  
(in alphabetical order)

- Alba Prado, Carlos; Anantavrasilpa, Ratchada; Annamalai, Nagavalli; Arsana, I Gede Putra; Bell, Simon C.; Borgonovo, Alfred Jean-Marie; Bufton, David Rex; Chen, Nancy; Chien, Jennifer; Choi, Youjin; Christova Hollanders, Luchia Marius; Corazza, Carlo; De Luna-Martinez, Jose; Delort, Dorothee; Devi, Chaw Su; Dias, Denise Leite; Eh, Naw Khu; Endo, Isaku; Eris, Mete Can; Fabling, Christopher Robert; Gonulal, Serap; Htay Htay, Nang; Kikeri, Sunita; Mahadevan, Balakrishnan; Mason, Andrew McEwen; Merican, Latifah Osman; Mortimer-Schutts, Ivan Daniel; Mylenko, Nataliya; Natarajan, Harish; Nguyen, Hang Thi Thu; Nicoli, Marco; Oo, Khin Saw; Poonprasit, Piathida; Rischall, Neal Howard; Sirois, Bonnie Ann; Song, Jiyoung; Srinivas, Gynedi; Swami, Rajeev Kumar; Tanaka, Kiyotaka; Trieu, Viet Quoc; Vijayakumar, Pammi; Wickramasinghe, Jiwanka B.; Yankey, Frederick

**Context**

Financial inclusion is a key priority in Myanmar’s development agenda. At present, over 70 percent of adults do not have access to credit, savings, and deposits. The Government of Myanmar has formulated a Financial Inclusion Roadmap 2014-2020 that aims at increasing the percentage of adults with access to basic financial services from 30% in 2015 to 40% by 2020.

**Project Objective**

The Development Objective of this program is to help increase access to financial services by the poor in Myanmar, to be achieved through the provision of technical assistance and advisory services in relation to strengthening the legal and regulatory framework; modernizing the payment systems; strengthening the supervisory and regulatory framework for microfinance; and enhancing the capability of financial sector authorities to identify and manage risks through financial sector development.

**Progress**

The Myanmar KTF Programmatic Approach (PA) concept was approved on January 2015, complementary to the World Bank IDA credit of $100 million for financial sector development which provided for disbursement-linked indicators for the achievement of outcomes that are reflected in the KTF PA. Hence, the TA delivered under the KTF was instrumental in paving the way for the scaling up of activities related to financial sector development in Myanmar.

The following are the various activities carried out under the KTF PA from January 2017 to January 2018:
a. Legal and Regulatory Framework for Financial Sector

Banking sector

With the passage of the Myanmar Financial Institutions Law (“FI Law”) in 2016 and the approval of the Mobile Financial Institutions Regulations 2016 (“MFS Regulations”), TA provided to the Central Bank of Myanmar (CBM) included policy discussions, dissemination and dialogues on policies underpinning the FI law. In this regard, three major events took place after the enactment of the FI Law - one for stakeholders and donors and other for CBM and the Financial Regulatory Department (FRD).

As part of the implementation of the new FI Law 2016, TA was provided to the CBM to transitioning to a new licensing regime for banks with the Central Bank issuing directives on new licenses to be given under the FI Law 2016. Ongoing advice on several policy issues has been provided to CBM on the implementation of the FI Law including the drafting and finalization of implementing prudential regulations relating to capital adequacy, liquidity, Asset Reclassification and Provisioning and Large Exposures.

TA was also provided on the drafting of 2 regulations on payment system and drafting of national payment strategy; and 4 learning events were organized for CBM, Attorney General office, FRD, and state-owned banks on the implementation of the FI law where at least 40 participants attended each event.

The WB, together with CGAP, provided advice to CBM on oversight arrangements and capacity building on the implementation of the Mobile Financial Services Regulations.

Feedback from CBM regarding TA delivery on the above has been very positive and CBM has expressed its appreciation of WB’s contribution through the above activities.

Microfinance

Much has been achieved in building the organizational structure within FRD for supervision of the microfinance sector and building capacity from scratch. During 2017, WB provided support and guidance on revising regulations on microfinance and clarifying instructions that were released in December 2016.

Following extensive consultation with the microfinance private sector, the FRD (under the Ministry of Planning and Finance, MOPF) issued new regulations in 2017 which aim to continue liberalization in the microfinance sector combined with a continued effort to enhance supervision. The new regulations are in line with the WB recommendations provided as part of ongoing technical assistance and make significant steps to alleviate liquidity constraints in the microfinance sector. The regulations also pave the way for increasing minimum capital for microfinance institutions.

The team also provided supervisor training for 50 supervisory staff for on-site and offsite supervision, data analysis and management; and provided guidance on the design and implementation of the supervisory database for microfinance.
Ongoing technical assistance is being provided including the following:

- continued training on on-site and off-site supervision to FRD microfinance supervisory staff;
- review of regulations and procedures as necessary;
- policy discussions on the necessary framework for the introduction of micro insurance;
- coordination with CBM and other key stakeholders on the framework to introduce mobile banking for microfinance institutions

**Insurance**

Six members of FRD management and staff undertook a **study tour to Korea from July 11-14, hosted by the Financial Supervisory Service (FSS), the Korea Insurance Development Institute (KIDI), and the General Insurance Association of Korea (GIAK)**. The main objective of the study tour was to learn from Korea’s experience in supervising and developing the insurance sector with attention to risk-based supervision, data information system, off-site monitoring and on-site supervision. The study tour covered the topics of insurance regulation and supervision including examination of insurance companies and risk assessment and application system, liberalization of Koran’s insurance market, consumer protection schemes of FSS, countering insurance fraud in Korea, and field visits to KIDI and GIAK on data system management. The sessions were well received and MOPF requested further assistance on related topics.

**b. Modernizing Financial Infrastructure**

This component has two main sub-activities, namely, state-owned bank reforms and modernizing the payment system.
Reform and Modernization of 4 State Owned Banks (SOB): TA has been provided to MOPF/FRD on issues relating to state owned bank reforms. The Government of Myanmar has decided to centralize ownership function of SOBs in the MOPF and separates it from policy-making to ensure consistency and effectiveness. TA has also been provided to FRD in structuring its resources for effective oversight of SOBs, resulting in the establishment of the Oversight and Monitoring Unit (OMU) within FRD. An ownership policy framework has been finalized to provide clear guidelines on the role of government as owner of SOBs and the role of the Board and management of the SOBs to enhance transparency and accountability.

Modernizing the Payment System: TA was provided under KTF PA to provide technical input in determining the specific payment systems investments and advance implementation of the National Payments Strategy for Myanmar. In this regard, the specific activities included:

- Completion of study on payments, clearing and settlement system for government securities and review of legal aspects related to payment systems in Myanmar;
- Ongoing work on Currency Management system and completion of report on gap analysis of existing currency management system and recommendations CBM in July 2017.
- Ongoing TA on the setting up a national payment council to support payment system development; development of an oversight framework for payment systems oversight; and review, assessment of Money Market in Myanmar and recommendations and Security Settlement System in Myanmar.
- Report on Alternative Approach to image-based checks clearing for clearing of outstation checks using the MCH.

c. Expanding the Depth of the Financial Sector and Promoting Responsible Finance

Consumer protection and Financial Literacy initial diagnostic conducted with an outline for developing a Financial Consumer Protection Framework for the banking sector prepared and delivered to CBM. There is a delay for the completed report of the Baseline survey for financial literacy due to poor quality assurance. The report was supposed to be ready by June 2017 but is now expected to be delivered by April 2018. Going forward, the conclusions of the financial literacy survey would provide the basis for the development of financial education program(s): approach, tools, and implementation (capacity building) for the CBM and MOPF/FRD for the banking and non-banking sector.

For SME finance, stand-alone competition/market assessment analyzed SME finance barriers. TA activities funded by KTF PA included discussions with several local banks Myanmar SME Association, MPs, and relevant stakeholders and learned that unemployment is a serious economic issue in Myanmar – and no more so than for Women and Youth.

For auditing and accounting, capacity building work was completed to strengthen auditing and accounting standards.
CAMBODIA: FINANCIAL SECTOR DEVELOPMENT TA

Grant amount: USD 1,442,600  Project duration: January 2016 – August 2018

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<tr>
<th>Team Leader</th>
<th>Anantavrasilpa, Ratchada</th>
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<tr>
<td>Team Members</td>
<td>Abdykadyrova, Buazhar; Annamalai, Nagavalli; Christova Hollanders, Luchia Marius; De Luna-Martinez, Jose; Endo, Isaku; Gonulal, Serap; Hosin, Gayon Maunsell; Kassim, Zainal Abidin Mohd; Kong, Lyden; Mascenik, Colleen; Mason, Andrew McEwen; Mel, Sokim; Nolte, Jan Philipp; Orbeta, Cristina; Ouk, Sarat; Pheakdey, Sambo; Phim, Runsinarith; Poonprast, Piathida; Ryskulova, Gulnur; Salomao Garcia, Valeria; Sengupta, Pramita Moni; Yankey, Frederick</td>
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**Context**

The Ministry of Economy and Finance (MEF) and the National Bank of Cambodia (NBC) have requested the assistance of the WBG to modernize the financial system with the ultimate goal of building a sound, efficient and inclusive financial system to underpin economic growth and poverty reduction in Cambodia. The financial system provides all citizens with the opportunity to save, invest, and get credit from financial institutions to cover their consumption needs or meet unexpected expenses. Furthermore, a larger and more dynamic financial system is needed to support the financing needs of economic actors, from micro-entrepreneurs, small and medium enterprises (SMEs) to large corporations and government institutions. Recognizing the importance of these objectives, MEF and NBC have reached out to the WBG for TAs in a number of areas of financial sector development.

**Project Objective**

Based on these requests and dialogue with the WBG financial sector team, TA activity plans to support the MEF and NBC in core areas of financial sector modernization and reform have been developed. The beneficiaries of this proposed TA are financial sector policymakers, regulators and market players in Cambodia in their efforts to build a stable, efficient and inclusive financial system to underpin economic growth and poverty reduction. This program is designed to establish the fundamental components for an effective and efficient financial system in Cambodia and for a financial sector that will support economic stability and growth with inclusion goals of the country.

The following activities are proposed for this TA.

- **Pillar 1:** Enhancing and maintaining financial stability: (i) strengthening prudential regulation and supervision in the banking sector; (ii) Strengthening capacity for financial crisis prediction and management; (iii) Anti-Money Laundering and Combating Financing of Terrorism (AML/CFT)
• Pillar 2: Increasing system efficiency: (i) Supporting the development of a National Payments Strategy (NPS) and a payments system oversight framework; (ii) Strengthening the accounting and auditing system in financial system

• Pillar 3: Promoting inclusion and consumer protection: (i) Supporting the deepening and strengthening of non-bank financial institutions; (ii) Promote consumer protection framework in financial system

**Progress**

Under Pillar 1, there were a series of capacity building programs held in 2017. The WBG team conducted an in-depth assessment and evaluation of the supervisory function and environment to support an effective Risk-Based Supervision (RBS) regime in Cambodia. In June 2017, WBG delivered a Technical Note on RBS detailing key findings and providing an action plan to improve the RBS regime. As a continuation support in its implementation plan, NBC requested the WBG to provide technical assistance to develop a RBS Manual covering risk identification, risk management, and risk mitigation.

WBG also conducted an in-depth study on the legal and institutional requirements for the establishment of a Deposit Protection Fund (DPF) in Cambodia. The Royal Government of Cambodia set up a joint working committee consisting of both management and technical officials of NBC and MEF. WBG provided technical assistance to this working group for both the legal and institutional arrangement of the establishment of the first-ever DPF in Cambodia. In Nov 2017, the DPF working group visited the Korea Deposit Insurance Cooperation (KDIC) to learn from their experience in financial safety nets in Korea and management of a successful deposit insurance fund. The joint working group has requested continued support for the legal provisions in setting up a functioning DPF in 2019 as indicated in the Cambodia’s Financial Sector Development Strategy 2016-2025.
In terms of Anti-Money Laundering and Combatting Financing Terrorism (AML/CFT), the team conducted a workshop ‘Using AML tools to combat corruption’ in October 2017. The workshop was well attended by key officials in the Anti-Corruption Unit (ACU) and provincial agencies. The ACU delivered a workshop by themselves after they received the ‘train the trainer’ workshop in March 2017. The success of this workshop has demonstrated the improved capacity of the ACU in transferring global knowledge to Cambodia. MEF recently requested WBG’s assistance on AML/CFT supervision of Non-Bank Financial Institutions (NBFIs) with high ML/FT risk, such as real estate and gambling businesses.

Under Pillar 2, WBG conducted a stakeholder consultation to share the findings of the preliminary assessment of Cambodia’s national payment system (NPS) and discuss the challenges and opportunities in the Cambodia market. In addition, WBG has started work on a national payment system strategy and plans to conduct a stakeholder consultation in 2018.

In terms of accounting and auditing, the Royal Government of Cambodia set up an Audit Quality Monitoring Committee (AQMC) consisting of representatives from the public and private sector. WBG and the PUM Netherlands Senior Experts, a non-profit organization specializing in accountancy, jointly provided technical assistance to improve the quality of audits for financial statements. This work has supported the implementation of a quality assurance and quality control structure in accordance with the International Federation of Accountants (IFAC)’ Statements of Member Obligations (SMO) 1 requirement. In addition, NBC recently requested a capacity building program for the implementation of the International Financial Reporting Standards (IFRS), especially IFRS 9 for the banking sector.

Under Pillar 3, WBG successfully provided technical support for NBC’s “Let’s Talk Money” campaign to enhance financial education and consumer protection through a radio show and a song sang by a popular singer named “Oun” (see Annex 3 for details). In addition, WBG supported the financial counseling pilot project at the village level. WBG also supported a legal reform of the Micro-Insurance Sub-Decree in order to promote micro-insurance products to the untapped population. In addition, WBG continues its support in drafting a series of legislations (Prakas) to support the micro-insurance Sub-Decree and to enhance market conduct for the micro-insurance sector in 2018.
**MONGOLIA: FINANCIAL SECTOR DEVELOPMENT SUPPORT PROGRAM**

**Grant Amount:** USD 1,920,000  
**Project Duration:** April 2016 – August 2018

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<tr>
<th>Team Leader</th>
<th>Lohmus, Ulle</th>
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<tr>
<td>Team Members (in alphabetical order)</td>
<td>Anvari, Farid; Bartlett, Nigel Marc; Batbold, Batmunkh; Benton, Jonathan Paul; Cervone, Elisabetta; Cheah, Kim Ling; Choi, Youjin; Christova Hollanders, Luchia Marius; Cohen, Michael; Damdinjamts, Mongoljingoo; Di Benedetta, Pasquale; Endo, Isaku; Goyal, Sameer; Hertzberg, Robert Steven; Hua, Xiaofeng; Kikeri, Sunita; Koltko, Olena; Kotlyar, Dmytro; Lai, Jinchang; Majlessi, Mohammad Shervin; Mc Guinness, Elizabeth Emily; McGuire, Claire Louise; Milyutin, Andrey; Mocheva, Nina Pavlova; Mullineux, James Lionel; Mundy, Shaun; Nicoli, Marco; Nolte, Jan Philipp; Pindaru, Ionut; Pop, Laura; Tamir, Amarsaikhan; Tatucu, Radu; White, David John; Wong, Lai Ying; Wong, Sau Ngan; Woo, Yip Kei; Xu, Yangguang; Zottel, Siegfried</td>
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**Context**

Natural-resource rich countries face extra financial stability risks as well as constraints to developing financial systems, stemming from the “Dutch disease” effects and higher macroeconomic volatility. The slowdown in China, the main export destination for Mongolia, and the declining global commodity prices have transmitted to the real economy, and consequently, to the financial sector. The Mongolian Authorities are acknowledging that a sound financial sector is essential for sustainable growth of the Mongolian economy which is inherently subject to the commodity price swings and aim at developing an internationally competitive, efficient, inclusive and balanced financial system.

**Project Objective**

The Development Objective (DO) of the Program is to support building a sound, diversified and inclusive financial system for Mongolia. The Program is focused on strengthening financial system stability, including through strengthening the banking sector; developing capital markets and the non-bank financial sector; improving financial infrastructure and financial literacy, and also creating better conditions for recovery of stolen assets.

The program has been designed in two phases: Phase I from May 2016 to December 2017; and Phase II from January 2018 to June 2019. KTF is expected to support Phase II once funding is confirmed. The key elements of the program are noted below.

(i) strengthen financial sector oversight; crisis preparedness and financial safety nets;
(ii) design and implement a policy framework for the state owned financial institutions and state-owned enterprises;
(iii) strengthen the regulation and supervision of capital markets and insurance sector;
(iv) improve the national payments system and expand access and use of payment services;
(v) improve the legal and regulatory framework for financial consumer protection and foster financial literacy; (vi) reform the insolvency system; and
(vi) strengthen the effectiveness of the asset declaration system and the capacity of Mongolian institutions to trace, freeze, confiscate and return stolen assets.

**Progress**

The KTF supported the delivery of the following activities during 2017:

**Supporting Banking Sector Soundness:**

The WB team supported the drafting of the TOR for the special external review on the quasi-fiscal activities of the Bank of Mongolia (BOM). This review is one of the triggers for the next Development Policy Operation (DPO).

Following the Deposit Insurance Corporation of Mongolia (DICOM) assessment, the WB team has been working with DICOM to address the shortcomings identified in that report. Significant progress on addressing the identified shortcomings has been made working closely with BOM, MOF and IMF. The technical assistance has supported improvements in the framework for information sharing on member institutions between DICOM and BOM, enhancing back-up funding arrangements for DICOM from MOF, advice to DICOM on developing methodology for establishing a funding target ratio based on best practices as well as, providing advisory services related to DICOM and Banking Law amendments in cooperation with IMF.

**Policy framework for SFIs and SOEs:**

Over the past couple of years, the WB team has provided advise for the amendment of the Development Bank of Mongolia (DBM) charter, including on DBM’s mandate and governance structure. The amended law was approved and became effective on April 1, 2017. The DBM board charter was approved by the Government on April 19, 2017. The WB team has also provided support for drafting the Terms for Reference (TOR) for a comprehensive external review on the DBM. The completion of this review and the following design of the DBM’s reform agenda are conditionalities of a WB’s DPO in Mongolia.

**Stronger asset declaration and recovery:**

In April, a workshop on effective verification of asset declarations to staff of the Independent Authority against Corruption (IAAC) was delivered. The workshop had two main components: (i) Sharing the experiences and lessons learned from carrying out verification of asset declarations in Romania. (ii) Group discussions on the verification process, drawing from the experts to identify the next steps in strengthening Mongolia’s asset declaration system.
Strengthening NBFIs:

Following much progress during the previous year on risk-based supervision for the insurance sector and the securities sector, during 2017 the WB team focused on (i) **Insurance sector**: review and update the risk-based supervision strategy and manual for the insurance sector (to customize it for the situation in Mongolia); advice on bancassurance, more advanced valuation methods for reserves, new accounting standards, reinsurace, and pension. (ii) **Securities sector**: Following the roadmap prepared by the WB team last year for an enhanced clearing and settlement system for the securities market, in April the team held a roundtable discussion with most of the relevant counterparts – Financial Regulatory Commission, Mongolian Stock Exchange, Mongolian Securities Clearing Company. **Also in April, two experts from Korea Securities Depository joined the WB mission and provided a 5-day technical assistance to the Mongolian Securities Clearing Company to assess the current challenges and share lessons from Korea.**

Payment system strategy implementation:

On May 18, 2017, the Mongolian Parliament passed the National Payment System Law (NPSL). The law became effective in January 2018. The WB team provided technical assistance to BOM and a working group on legislative drafting of the law, awareness raising of the payment systems legal concept, and sensitizing members of the Parliament on the importance of the law. The bank team also discussed the new Law in detail with BOM and provided a review of good practice and examples from other countries in setting up the relevant implementing regulations. The WB will assist the BOM by reviewing draft implementing regulations for the NPSL.

BOM-FRC Joint Workshop of the CPMI-IOSCO Principles of Financial Market Infrastructures: The WB team organized a BOM-FRC joint workshop on the international standards of financial market infrastructures (FMIs) on May 9, 2017. The workshop was attended by 15 BOM staff in charge of operating and overseeing the payment systems, and 7 FRC staff in charge of regulating and supervising the Securities Settlement System (SSS) and the Central Securities Depository (CSD). Both BOM and FRC are regulators, supervisors and overseers of FMIs and the principles require coordination. It was important to organize a joint workshop to recognize the responsibilities of respective regulators. The workshop was well received by the participants and was followed by active discussions during the Q&A session.

BOM RTGS Self-Assessment Workshops: The WB team delivered a series of workshops on the self-assessment of Mongolia’s Real Time Gross Settlement (RTGS) System based on the methodology of the Principles for Financial Market Infrastructure. The self-assessment is a core activity of payment systems oversight and risk management. The workshops supported BOM’s capacity building.

Financial capability:

The WB team provided substantial support in the drafting of text for BoM’s financial capability website which was launched in April (http://www.sankhuugiinbolovsrol.mn/).

The WB team provided technical inputs for incorporating financial education into the curriculum for schoolchildren for grades 1-12; hired local consultants to support the incorporation of financial education
into the curriculum for schoolchildren in grade 11; and prepared an early draft of the student textbook for grade 11.

In November, the WB team conducted several workshops on Monitoring and Evaluation (M&E) as well as the financial education textbook for 11th grade, and gave four television interviews. Specifically, the team conducted two technical workshops on the development of a national M&E system for financial capability in Mongolia. The first half-day workshop aimed to build the capacity of and get buy-in from a wide range of stakeholders for M&E of the NPFL, while the second 1 ½ day workshop aimed to build the M&E capacity of BOM’s Financial Capability team for designing and implementing M&E plans for financial capability programs. Secondly, the team conducted a one-day workshop to train master teachers on the content and delivery of the draft financial education textbook for grade 11 schoolchildren. The team also had in-depth discussions with BOM’s Financial Capability team on how best to continue to develop the initiatives underway, and scoped out opportunities for priority activities which were set out in the NFLS.

Insolvency reform:

During 2017, the IFC team continued to engage with key stakeholders including the Ministry of Justice and Home Affairs (MoJHA), the new Working Group on Bankruptcy Law, and the Bank of Mongolia (BOM). Comments and suggestions were made on the draft framework for the revision of Bankruptcy Law, which had been developed by the Working Group following earlier work under this project. Also, the team has been participating in the discussions on NPL resolution and related legal review process, and has coordinated with other donors on the ground. Among others, this insolvency reform initiative supported by the KTF is very much in line with the IMF’s efforts to help the country deal with the rising NPLs.

A roundtable discussion was held in Ulaanbaatar between the IFC experts and the Working Group on June 7. Key elements of the modern insolvency system and essential features of personal insolvency aspects were discussed, and the team’s technical comments on the framework were explained further.

In June, a Conference on Insolvency Reforms was also successfully organized together with the MoJHA. Around 100 international and local participants discussed the current practice and legislative framework on bankruptcy in Mongolia, the need for further reforms, essential international best practice, and experiences from other markets. High-level speakers from neighboring countries, including a Judge from the Supreme Court of Korea, joined the event and shared their lessons and insights. The participants asked many interesting questions
about the largely judiciary-led system in Korea and its ways to handle high numbers of personal insolvency cases. Korea has an advanced insolvency framework compared to those of the other Asian countries and this is one resource that the IFC team has been leveraging.

In November, IFC signed a Memorandum of Understanding with MoJHA to formalize the cooperation to reform the country’s insolvency system. The cooperation aims to improve access to finance and financial stability in Mongolia through strengthening the insolvency and debt collections systems.

In December, a workshop on out-of-court workouts (OCW) and other alternative methods of resolving NPLs was organized jointly with MoJHA. The objective was to share international best practice and experiences from other markets on several non-formal means of resolving debt problems. **Examples of the OCW infrastructure development from Korea, US, and Japan were introduced to the participants.** The workshop was well attended by around 100 participants including lenders, legal practitioners, judges, mediation and arbitration professionals, and other relevant government officials. The feedback was very positive, and the team received specific requests to provide additional information on personal insolvency best practice and country examples. Among others, commercial mediation was a topic which attracted particular interest from the banking industry. Mongolia recently enacted legislation on mediation, which has so far been used only in non-commercial areas.

The team will continue to push ahead with the drafting of the revised Bankruptcy Law, and provide knowledge back-up to the Working Group. An advanced version of the concept and framework for the new Law is expected to be completed in the first half of 2018. This will be different from those embedded in the previous second draft of the revised Law, and will be closer to international best practice.

**Just in time Policy Advice:**

The WB team provided significant TA on an exit strategy for BOM’s Housing Mortgage Finance Program. A mission was conducted in April to continue the WBG dialogue with the Mongolian stakeholders on the housing finance matters. The focus of the mission was to support BOM and other sector actors in restructuring the housing subsidy program. The WB team reviewed the program terms and implementation mechanisms to suggest potential adjustments with the aim to (i) increase subsidy targeting, (ii) reduce subsidy transmission inefficiencies, and (iii) enhance program sustainability. The WB team presented a number of scenarios for consideration by the authorities in terms of the potential origination volume together with a recommendation to revise the financial mechanics of the subsidy.
**Context**

Vietnam has achieved remarkable economic performance since the start of its transition in 1986 including rising levels of formal financial intermediation and deepening. However, several challenges remain to be addressed as noted in the 2012 FSAP report. As Vietnam strives to move towards a higher middle-income country, it is facing higher demands for sustainable long-term financing and a diversified financial system. Capital markets and NBFIs remain in the early stage of development and are not yet able to relieve the pressures on a very bank centric financial system for long-term financing. To address these challenges in the NBFI sector and also the vulnerabilities in the banking sector, the Vietnamese financial authorities have requested technical assistance from the WBG, to which F&M has responded by developing a multi-year Programmatic Approach (PA).

**Project Objective**

The overall objective of this PA activity is to leverage capital markets and NBFIs for the growth and development of Vietnam. Developing capital markets is not an easy task, as it involves a large number of players and institutions, as well as complex building blocks, to ensure the efficiency and safety of their operations. The key stakeholders in this market include, banks, insurance funds, pension funds, securities market as well as the bond markets. The engagements under this pillar will develop these complementary segments in appropriate sequence to support long term growth and development. Key discrete activities under this engagement will include:

1) Insurance: (i) Design an information system to capture insurance supervisory information required for a modern smart-RBS; (ii) Review the insurance law and regulations and supervisory framework and identify gaps and determine needed changes for a smart-RBS; (iii) Provide training as needed in all activities and specific training focusing on using IT and data management for effective smart-RBS

2) Pension: (i) Support the Ministry of Finance (MoF) to develop the private pensions market and to ensure safe and productive investment of pension assets; (ii) Support the Vietnam Social Security Fund (VSS) and stakeholders to develop a clear governance structure and investment strategy for the fund; propose
legislative and/or regulatory amendments required for safe and efficient investment of public pension assets; (iii) Provide capacity building/training for the MoF, the VSS, and related stakeholders regarding global good practice on the investment and governance of public pension funds

3) Government bond market: (i) Review the implementation of Vietnam Bond Market Development Roadmap (2012) and its results and support the MoF to prepare the next phase of implementation; (ii) Strengthen the legal framework for a better functioning and more liquid government bond market and to make government borrowings more market-based and transparent; (iii) Develop policies to increase demand and broaden the investor base for government bonds; (iv) Develop policies to improve supply and support development of new, relevant bond products that cater to the needs of institutional investors; (v) Develop policies to improve the secondary market operation

4) Securities: (i) Support legislative reform of the Securities Market Law and prepare for the promulgation of the next generation of Securities Law; (ii) Provide on-site training programs for the State Securities Commission (SSC) and prepare internal operating manuals

**Progress**

**Pension:**

The pension team had three missions in 2017 to work with VSS, Ministry of Labor - Invalids and Social Affairs (MOLISA) and MOF on public pension and with the MOF and MOLISA on private pensions development.

On public pension, the efforts were focused on (i) data collection from the VSS and related stakeholders for the ‘PROST’ modelling of VSS pension liabilities for their own use and as an input into MOLISA and MOF policy and oversight work, (ii) investment capacity building for VSS, (iii) a review of Governance and Investment of the VSS relative to the International Social Security Association (ISSA) principles, (iv) MOLISA and MOF’s plans for current and future reforms to pensions in Vietnam.

Following significant delay and challenge in data collection for the PROST modeling, preliminary results from the assessment of VSSF’s liabilities were produced and discussed with the VSS. Further refinement to the model is being done to finalize and share the results with higher level government bodies. An introductory training into the PROST modeling was conducted for more than 20 participants from the VSS, MOLISA and MOF with a handover training to be scheduled in Q1 2018. On investment capacity building, an
intensive training course on fundamentals of investment with a focus on fixed income and tailored to VSS’s practicality was provided from September to November 2017 for VSS by a team of professional trainers and practitioners in Vietnam. The training was concluded with 93% of participants passing the final examination and was highly appreciated by the VSS’s senior management (see attached letter from the VSS). A seminar on experience and insights in investing was held. In addition, a draft review of the VSS’s governance and investment against ISSA standards and its findings were shared with the VSS’s senior management and MOLISA.

On private pension, the project continues to provide advice to the MOF of private pension development through various discussions and technical notes on review of Decree 88, commentary on draft Circular, supervision development, tax treatment of private pension.

Insurance:

One mission on insurance supervisory development was conducted in 2017 during which a 3-day training was provided to ISA on the fundamentals of insurance companies’ operations and approaches towards insurance supervision. The project also provided advice on the preliminary design of ICT systems for supervision, and supported ISA in conducting a survey of both life and non-life insurance companies’ ICT practices for financial reporting. The project has produced a report on the review of supervisory financial analysis and regulatory reporting process, supervisory IT system and functional description, and international experience as inputs to ISA’s investment in ICT system for supervision as approved by the Minister of Finance.

Bond Market:

The project team provided technical support to MOF to take stock of the current market situation and provided recommendations on key areas of reforms which were incorporated in the draft bond market development roadmap. In August 2017, the Government issued Decision 1191 on the Bond Market Development Roadmap 2020 with vision to 2030, showing strong commitment to further develop the bond market in Vietnam, aiming to (i) build a more sustainable market for medium and long term financing.
to support the economy; (ii) expand the investor base with scale and high quality; (iii) diversify market products and operations; (iv) enhance market transparency and efficiency; and (v) to adopt and align with international standards and practices. By 2020, the government sets a target that bond market should reach 45% of GDP (of which government bonds and government guaranteed bonds shall account for 38% and corporate bonds 7%). Another key milestone for the year was the enactment of new Public Debt Management Law in November 2017 which provides strong foundation for development of the domestic bond market. The WB team contributed with comments on relevant aspects of the Law. The project also continued to contribute advice and inputs to the drafting of the revised decree to replace Decree 90 on corporate bond private placement and helped MOF to organize a consultation workshop for comments from market players in November 2017. The revised decree is expected to be finalized and submitted to the government for approval in 2H of 2018 and the project team will assist/advise MOF further as may be required.

**Securities Market:**

The work on reviewing the Law on Securities is progressing well. WB team provided input through a draft report focused on a few important topics including policies related to public companies, public offerings, and governance of the securities exchange. The team had a dedicated mission (May 2017) to discuss in great details a draft amendment to the Law on Securities, as proposed by the State Securities Commission (SSC). One of the topics under discussion was closely related to a supervisory capacity building module as part of the program, namely Module 2: Supervision of Public Companies which was delivered in 2017 through a technical note and discussions with SSC Staff. Similarly, a technical note was delivered on Governance and Legal Framework for Securities Exchanges, as part of the implementation of Module 4: Market Surveillance and Regulation of Exchanges. Another capacity building module, Module 1: Supervision of Securities Business and Market Intermediaries, continued during the year, following WB’s 10-point recommendations presented in November 2016 with 5 memos to SSC on: (i) increased scope of on-site examinations, (ii) additional procedures for examination of specific areas, focusing on assessing adequacy and effectiveness of firms’ policies and procedures, (iii) internal compliance monitoring programs for securities firms, (iv) model code of conduct for securities firms, and (v) developing an initial risk assessment model for supervision of the securities firms. To complement the capacity building activities, a sharing of Korean experience on risk-based supervision was conducted in July 2017, presented by a team from Korea’s Financial Supervisory Service (FSS).
**PHILIPPINES: FINANCIAL DEVELOPMENT AND INCLUSION**

**Grant Amount:** USD 600,000  
**Project Duration:** September 2016 – August 2018

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<tr>
<th>Team Leader</th>
<th>Endo, Isaku &amp; Goyal, Sameer (current); Mylenko, Nataliya (former)</th>
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<tr>
<td>Team Members (in alphabetical order)</td>
<td>Chen, Rong; McNulty, John E.; Ono, Toshiaki; Santos, Griselda G.; Sbero, Rachel; Varangis, Panayotis N.</td>
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**Context**

The Philippines’ financial system is dominated by the banking sector, and appears to be stable and highly liquid. Growth of the banking system and abundant liquidity, however, are not translating into greater access to financial services. Access to basic financial services for the lower 40% (by income) of the population increased from 10% in 2011 to 18% in 2014 but remains low. Lack of access to basic savings, payment and credit services for low income population and MSMEs limits their ability to fully participate in the broader economy, exacerbating inequality and poverty in the Philippines. Lack of effective insurance and retail finance mechanisms also means that financial assistance and risk mitigation for natural disasters cannot be delivered efficiently to the affected populations. To address these challenges, the Philippines financial authorities launched a National Strategy for Financial Inclusion (NSFI) in 2015, which the WBG had helped design. Following the launch, the authorities have also requested WBG’s support in the implementation of the NSFI. WBG Finance and Market’s team has developed a multi-year Programmatic Approach (PA) to respond to the client request which has been approved by the WBG management.

**Project Objective**

The overarching objective of the PA is the development of the financial system of the Philippines and increased financial inclusion through

1) **Pillar I: Financial inclusion**
   (i) Monitoring and measurement system and mechanism for NSFI implementation
   (ii) Assessment of data gaps in cooperative sector and enhancement of Cooperative Development Authority capacity in cooperative oversight
   (iii) Stock taking and developing a systematic approach for the implementation of financial education programs and policies across agencies
   (iv) Identification of specific reforms and instruments (guarantees, special purpose funds) to improve access to finance for SMEs

2) **Pillar II: Financial stability and soundness**
   (i) Implementation of the enhanced bank resolution framework and improving the deposit insurance capacity
Progress

After a slow start in 2016, the World Bank team got stronger traction with BSP (central bank of Philippines) during 2017 and delivered a number of outputs to support the NSFI.

Framework for reporting NSFI implementation: The World Bank helped BSP develop a framework for periodic reporting of the status of implementation of the NSFI by line agencies. The template allows for summary and consolidation of results aligned to high level indicators of NSFI implementation. Between September 2016 and January 2017 WB team worked with NSFI Secretariat to further enhance reporting tool and develop a data dashboard and implementation tracker for NSFI. WB team provided a draft dashboard tool and is in ongoing effort with the secretariat to improve and streamline the tracker tool. BSP expects to issue NSFI implementation progress reports in the future drawing on the data collected using the methodology and tools developed with WB support under this activity. This activity contributed to increased capacity of NSFI Secretariat for monitoring and evaluation and program implementation. The approach deployed by BSP is innovative and now forms part of international best practice as described in the blog on Philippines experience at http://blogs.worldbank.org/psd/philippines-pioneers-approach-monitor-and-evaluate-national-financial-inclusion-strategy

Agriculture finance in the Philippines: In response to a request from the BSP, the F&M team prepared a desk review (delivered February 2017) which provided an overview of the agricultural finance in Philippines and summarized international experience in policy reforms that could be relevant for the Philippines. The desk review was presented to BSP who shared it with the Agricultural Credit Policy Council, Department of Agriculture. The follow-up discussions prompted the need for a more in-depth study to feed into current policy discussions and guide relevant Philippine government agencies and stakeholders to work together to enhance and strengthen agricultural finance in the Philippines. A more detailed diagnostic on agriculture finance is currently under preparation by a joint team of finance and agriculture experts and is expected to be completed by September 2018.

Reform of SME Credit Guarantee Instruments in the Philippines: Currently a range of factors both external and internal are constraining SME Growth in the Philippines. Several institutions are designated to provide credit guarantees in the Philippines but these are small and currently are not able to fully perform the functions envisaged in their mandate due to a range of constraints including regulatory, capital, skills, and ability to attract and retain qualified staff. There is an opportunity to refocus and reform guarantee mechanisms in the Philippines to help facilitate provision of loans to the underserved sectors in an efficient manner. To support the discussions around better utilizing credit guarantees in Philippines, a note was provided to the Government in May 2017 which reviewed SME Credit Guarantee Instruments in Philippines. The objective of the note was to provide a brief review of the regulatory and institutional framework and provide suggestions for the enhancement of the SME credit guarantee and other government supported market friendly instruments for improving access to finance for SMEs in the Philippines drawing on international experience. Subsequently, the Bureau of Treasury of Philippines requested assistance (through the central bank) from WBG to advise/support the Government’s plan to consolidate all guarantee schemes in Philippines. The mode and nature of support is pending further
direction from the Government (the plan for consolidation of credit guarantees is awaiting final approval form the Government).

**Philippines MSME Finance Eco System:** The MSME sector in the Philippines is an important contributor in terms of number of businesses registered and contribution to employment generation. It is understood that 99.6 percent of registered firms in the Philippines are MSMEs and that these firms contribute 61.2 percent to total employment. However, the contribution of these firms to overall GDP is only around 36 percent – indicating that much more could be done to enhance the productivity and the economic contribution of this sector to the overall economy. As economies grow and mature, the contribution of MSMEs to growth, employment and contribution to GDP all increase. A brief note was prepared to document the MSME finance ecosystem in Philippines with the objective of providing advice to the Government on related policy reforms. The brief was prepared and shared with the Government in May 2017. This has benefited further discussion on MSME issues with the Government. At present new advisory work relating to MSMEs has been discussed and agreed with the Government and is under implementation.

**Strengthening Financial Cooperatives:** As part of the agenda to strengthen financial inclusion in the Philippines, the Government of the Philippines and the World Bank have agreed to assess options to strengthen cooperatives providing financial services and their supervision. A note titled “Philippines: Financial Inclusion and Cooperatives -- Brief diagnostic and options for enhanced supervision of the cooperative sector” was provided to the Government in May 2017 to help initiate the discussion on this important topic. The brief provided an initial view of the sector and some options for its strengthening considering experiences gained in countries facing similar challenges.

**Financial Stability capacity:** During 2017, the team continued to dialogue with BSP and Philippine Deposit Insurance Cooperation (PDIC) to help support any potential capacity building needs. The PDIC has expressed interest in support for (i) ASEAN level event on Deposit Insurance/Safety Nets late 2018; (ii) TA with their strategy for resolving bad debt (from some 300+ closed banks). The team is in touch with PDIC and is exploring best way to support the client needs, including possibly by leveraging Korea Deposit Insurance Corporation (KDIC) partner resources.
LAO PDR: FINANCIAL SECTOR DEVELOPMENT

Grant Amount: USD 800,000  Project Duration: September 2016 – August 2018

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<thead>
<tr>
<th>Team Leader</th>
<th>Tanaka, Kiyotaka</th>
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<td>Team Members (in alphabetical order)</td>
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Annamalai, Nagavalli; Bell, Simon C.; Booth, Charles D.; Delion, Marie Lily; Fabling, Christopher Robert; Kwok Chung Yee, Brian; Lorenzo, Laura Maria; Mocheva, Nina Pavlova; Mortimer-Schutts, Ivan Daniel; Nolte, Jan Philipp; Omany, Vonglatda; Orbeta, Cristina; Panyanouvong, Duangchay; Phounsouvanh, Sakhone; Phonvisay, Alina; Phounvixay, Vidaovanh; Poonprasit, Piathida; Sakonhninhom, Sourignahak; Salomao Garcia, Valeria; Sitorus, Djauhari; Sombounkhanh, Souksavanh; White, David John; Wong, Sau Ngan

CONTEXT

A more stable and efficient financial sector is essential to promote economic growth and shared prosperity in Lao PDR. The modernization of Lao PDR’s financial system is one of the ten strategic areas that the WBG has decided to support in the upcoming years. This concept note outlines the WBG’s Financial Sector Development TA program designed to achieve this goal, utilizing a Programmatic Approach (PA) that will allow the WBG to operate on a multi-year timeframe and address problems in a comprehensive manner though coordinated and properly sequenced projects.

PROJECT OBJECTIVE

The development objective of this Programmatic Approach is to promote the development of a more stable and efficient financial sector. This will be achieved through the provision of TA to enhance the capabilities of financial sector authorities, and assist in the aligning of laws, regulations and practices with key international standards. This TA program involves a coordinated, sequenced and comprehensive approach, with a consistent impact monitoring framework, based on the following three pillars:

(i) Pillar 1: Enhancing Financial Stability
   a. Financial Stability Monitoring
   b. AML/CFT National Risk Assessment (separate regional KTF code)
   c. Deposit Insurance (moved from Pillar 3 in July)

(ii) Pillar 2: Upgrading the Legal and Regulatory Framework
   a. Legal and Regulatory
   b. Accounting and Auditing (partly Malaysia-office funded from FY18)
   c. Insolvency and Creditor Rights (moved from Pillar 3 in July)

(iii) Pillar 3: Just-in-time Technical Assistance
Progress

This proposal was approved in September 2016, coinciding with a window of opportunity in Lao PDR’s willingness to reform its financial sector and engage international partners. The Bank of Lao (BOL)’s 2016-2025 Strategy, approved in late 2016 is particularly ambitious. BOL also took the initiative to compile their TA requests to the WBG for 2017 and beyond into one document, aided by the Bank’s coordinated approach, which was received in February 2017.

Pillar 1: Enhancing Financial Stability

a. Financial Stability Monitoring

This activity’s main counterpart is the BOL Banking Supervision Department. Financial stability indicators (of which the IMF’s Financial Soundness Indicators (FSIs) are the archetype) are indicators of the current financial health and soundness of the financial institutions in a country. FSIs are calculated and aggregates are disseminated (by over 100 countries) by IMF for the purpose of supporting macroprudential analysis.

WBG TA on calculating FSI was delivered in 2016, and in 2017 resulted in BOL agreeing to the quarterly publication of seven core aggregated FSIs as part of the Green Resilient Growth DPO 2. BOL will therefore publish Q4 2017 FSIs by March 2018, increasing to nine core indicators for Q2 2018.

Aside from supporting FSIs, a series of half-day seminars with substantial Q&A, were delivered in March and May on regulating: asset classification, capital adequacy, liquidity, and foreign branches. Remote Q&A support was also provided in February 2017. The WBG also provided a two-day workshop on Bank Resolution in September, which was highly synergistic with the TA on regulatory reforms and deposit insurance. All these TA topics go hand-in-hand with Pillar 2’s regulatory reform efforts.

b. AML/CFT National Risk Assessment

This TA is KTF-funded but provided through the regional “National Risk Assessment (NRA) ASEAN” (P152092, TTL: Stuart Yikona, Dec 2014 - Aug 2018).

c. Deposit Insurance (moved from pillar 3)

In response to earlier crises, the BOL Depositor Protection Fund (DPF) was established by a decree in 1999. It however still has capacity constraints on multiple fronts, including, funding (only enough for the 9th largest bank), IT (depositor data is on 6 stand-alone PCs), and institutional coordination (no back-stop agreement with MOF), so is unable to enhance financial sector stability as intended.

This year, the WBG TA has continued, as requested, with a workshop on payouts by German experts in April, and a workshop on Bank Resolution in September. The WBG suggested that DPF conduct an International Association of Deposit Insurers (IADI)’s Core Principals self-assessment, which DPF duly did, with TA from the WBG in October. The new Deposit Insurance Decree, which reflected several rounds of WBG comments, was also finally issued in October 2017. The decree is a marked improvement on the 1999 decree but will require significant follow-up TA to implement.
Pillar 2: Upgrading the Legal and Regulatory Framework

a. Legal and Regulatory

The current financial sector legal framework is outdated and inadequate; e.g. the Commercial Bank Law falls short of many Basel Core Principles, requirements of the ASEAN integration framework, the Key Attributes for resolution and most of all its appropriateness for the Laotian banking system. Similarly, the BOL Law suffers from serious gaps including governance, accountability and its role and function vis-a-vis the banking sector, the government and other regulators. BOL has therefore requested TA on these key laws as well as related laws and regulations.

In 2017, legal experts from the WBG conducted missions in February, March, May and October to continue working with the BOL legal teams on the BOL Law and Commercial Banking Law. Due to their importance, the submission to the National Assembly of international standard central banking and commercial banking laws are prior actions of the Green Resilient Growth DPO 2 due in late 2018 and DPO 3 due in early 2020 respectively.

Comments were also requested on the Consumer Protection Decree and Securities Law. These were provided in April for the former, and March, May and August for the latter. A workshop and video call were subsequently held with the Lao Securities Commission Office (LSCO) in May and September. The timeline for the securities law has been pushed back to early 2019 partly because of LSCO’s realization that substantial work will be required to bring the law up to international standards.

b. Accounting and Auditing

The WBG is providing TA to revise and strengthen Lao PDR’s accounting and auditing standards to ensure they are more consistent with international best practices. This will particularly help Lao PDR adopt IFRS, revise training programs and the curriculum for certified public accountants, adjust auditing requirements for national and international firms, strengthen the Lao Chamber of Professional Accountants and Auditors (LCPAA) and related institutions.

This calendar year, the WBG team worked closely with LCPAA and the Malaysian Institute of Accountants to conduct an IFRS Gap Analysis, including a mission in July and a workshop in September. The IFRS readiness of two public-interest entities, BCEL and EdL, was analyzed in detail. The gap analysis was accepted by the IFRS Steering Committee chaired by MOF and presented at a regional IFRS conference in Vientiane in December, which was jointly-organized by the WBG. The gap analysis will now inform the drafting of a transition plan for the three sectors regulated by BOL, MOF (Insurance) and Lao Securities and Exchange Commission Office.

c. Insolvency and Creditor Rights (moved from Pillar 3)

According to WBG’s Doing Business report, Lao is joint-last in the world for the ease of resolving insolvencies. This lack of creditor rights places a severe cost on lenders’ ability to lend, ties up capital in zombie firms, and reduces the incentives for entrepreneurs to innovate. The Ministry of Justice (MOJ) has
requested TA to better understand the situation and reform the Bankruptcy Law, now due for submission to the national assembly in April 2019.

This year, the WBG provided comments on the current bankruptcy law in May, as well as on the related draft civil code due in April and the Law on Enforcement in February 2018. Seven representatives from the Ministry of Justice, People Supreme Court, Ministry of Industrial and Commerce, and BOL were sponsored to the Forum for Asian Insolvency Reform held in Hanoi, Vietnam. A supreme court judge was also sponsored to an insolvency legal learning event in Sydney. Progress has been slow pending the formal approval of the drafting committee, but now it is in place, and an aggressive timeline has been agreed on with the WBG.

**Pillar 3: Just-in-time Technical Assistance**

Lao PDR’s financial sector is in the early stages of its development, and the capacity of the financial sector authorities is low. The authorities often do not know what assistance they need ahead of time. The financial sector authorities therefore benefit from being able to request small but timely TA, and this facilitates a dialogue on high-priority reform areas. The just-in-time pillar has been especially helpful for WBG to responsively build relationships that lead to new opportunities for reform.

An example of activities covered under this pillar this year include timely training opportunities for key counterparts, e.g. a Deputy Director General of Banking Supervision attended the IMF / US Federal Reserve / WB training for Emerging Market Banking Supervisors in Washington DC in October.
**EAP: CASE STUDIES IN DE-RISKING**

**Grant amount:** USD 145,000  
**Project duration:** March 2017 – June 2018

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<tr>
<th>Team Leader</th>
<th>Chatain, Pierre-Laurent</th>
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<tr>
<td>Team Members</td>
<td>Abel, Donald Bremner; Aviles, Ana Maria; Celik, Kuntay; Eckert Sawoski, Sue Ellen; Endo, Isaku; Goyal, Sameer; Malik, Priyani</td>
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**Context**

Correspondent banking is an essential component of the global payments system, especially for cross-border transactions. De-risking, the termination of correspondent banking services for clients perceived to be “high risk” has the potential to reverse some of the progress made in reducing remittance prices and fees, as well as in the prices of other financial instruments and services. The WBG and the international community have been giving increasing attention to the significance of de-risking. The proposed project aims to respond to this phenomenon with more information on possible knock-on effects of de-risking and on informing policy decisions at both local and global levels.

**Project Objective**

The objective is to gather information on the effects of de-risking on local communities and to work with private and public sector partners to develop solutions to ensure that the affected organizations maintain access to financial services. This country-specific pilot study intends to shed more light on the way the withdrawal of correspondent banking and de-risking activities in the remittance market are affecting specific categories of customers. It will also discuss not only the negative impacts of de-risking but also the positive ones.

**Progress**

At the request of the G20 and with the support of the Financial Stability Board (FSB) and the Committee on Payments and Market Infrastructures (CPMI), the World Bank Group carried out two fact-finding projects on de-risking. These projects confirmed the trend that correspondent banking relationships had been restricted or terminated, affecting especially Money Transfer Operators (MTOs), small and medium domestic banks, and small and medium exporters. Following subsequent discussion and stakeholder dialogue between relevant global entities it was recommended that “further work should be undertaken to identify and quantify the negative effects on the economies of smaller jurisdictions (trade finance and remittance dependent individuals/families) to strengthen the case for public intervention/concern.”

To respond to this call for more granular analysis, the World Bank Group initiated a project in 2017 to conduct 8 country studies to better understand the effects of de-risking at the local level, considering local banks, MTOs, and the final customers receiving remittances, using trade finance and benefiting from other services. The KTF supported research in 4 of the countries - Bangladesh, The Philippines, Kingdom of Tonga and Samoa - on the impacts of the withdrawal of correspondent banking relationships (CBRs). The
objective of these studies was two-fold: (i) to collect qualitative and quantitative data covering a number of issues, including trends in correspondent banking (closure of accounts of domestic banks and MTOs) and (ii) to assess potential impact on specific categories of clients, products and services. The case studies benefitted from interviews with government officials, regulators and supervisors, international and local banks, money transfer operators, chambers of commerce, and inter-institutional commissions for financial inclusion.

The findings of the individual country studies were used to prepare a summary paper which offers further insight into the debate through the prism of these eight emerging market economies in East Asia and Pacific (EAP), Latin America and the Caribbean (LAC), South Asia (SA), and Sub-Saharan Africa (SSA). Overall, in the eight countries covered in this study, the macro-economic impact of de-risking appears limited. In a few countries, the net loss of CBRs has been marginal and the impact has remained contained. Banks have been able to cope with the situation by dealing with fewer correspondent banks or establishing new ones. The study shows however that the impact of de-risking has been felt at the micro-level, sometimes intensively, especially in two jurisdictions surveyed under the KTF assistance. On a few rare occasions, banks nearly lost their access to the international financial system. The final output was published by the World Bank Group in April 2018 on the sidelines of the WBG-IMF Spring Meetings. The link to the final report is given below.

SECTION III:

SEOUL CENTER PLANS FOR 2018
SECTION III: SEOUL CENTER PLANS FOR 2018

SEOUL CENTER 2.0: ENHANCED PARTNERSHIP AND KNOWLEDGE

Building upon the successes and lessons of the first phase of operations, the Seoul Center will ramp up its efforts to develop a comprehensive work program on partnership, knowledge transfer and knowledge generation to leverage the Korean partners’ experience, expertise and institutional capacity. Some of the elements of this program under discussion include:

• **More effective communication** of the results of the projects supported with KTF, especially highlighting the value-add of Korean institutions (e.g. dedicated website, audio-visual materials, brochures, smart lessons notes, etc.). The dedicated website to highlight the work undertaken as part of the Seoul Center partnership is in the process of being approved by the F&M management.

• **Preparating for a financial stability and soundness focus** – potential activities could include:
  - Foundation paper on financial stability in East Asia (in collaboration with KIF, BOK, FSC, FSS, KDIC, KAMCO, etc.)
  - Flagship event on topical areas of financial stability based on the foundation report or other priorities for the region (e.g. non-performing loans, early warning systems, development financial institutions, capital markets, etc.)
  - Case study on Korean experience in Early Warning Systems and its evolution (in collaboration with FSC, FSS, KCIF, BOK)
  - EAP financial sector monitoring platform to obtain a better understanding of regional vulnerabilities and risks and to regularly follow up on developments and trends in this area

• **Partnership event** to bring major clients, F&M teams, and Korean partners together, to share the results of F&M’s and Korea’s support for each country, and discuss challenges and opportunities for future engagements (planned Q4 2018)

• **Enhanced collaboration with other F&M⁴ Hubs** to learn from one another and pursue joint research and operations

A detailed work plan is being prepared and will be discussed with MOSF and other partners in Q3 2018.

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⁴ The Finance & Markets Global Practice is reorganized as Finance, Competitiveness & Innovation Global Practice as of January 1, 2018.
TOWARDS SEOUL CENTER 3.0

During a meeting between the management of MOSF and WBG in February 2016, informal discussion started regarding expansion of the Seoul Center and deepening the partnership. During the course of 2016 and 2017, the Seoul Center team worked with MOSF, F&M management, and the Korea Office team to develop this approach. The design has benefited from dialogue and discussion with the other two F&M centers in Vienna (FinSAC) and Malaysia.

Such expansion was initially planned for Seoul Center 2.0; however, due to unanticipated political changes including the change of government, and strategic shifts in the Ministry’s ODA plans, the grand expansion plans were postponed to the third phase of the partnership, Seoul Center 3.0.

Seoul Center for Financial Sector Development 3.0

**Focus on Financial Stability and Soundness**

**Why...**
- Growing concerns on vulnerabilities in the EAP region and globally
- Strong demand in the area of financial stability and soundness
- Growing interest in learning from Korea’s experience

**What...**
- Building resilient financial institutions and addressing vulnerabilities internationally
- Aligning legal, regulatory, and supervisory frameworks with international standards
- Strengthening financial safety nets, regimes and policies
- Enhancing crisis preparedness
- Supporting financial integrity initiatives
- Promoting capital market, insurance, and pension development

**How...**
- Knowledge Generation and Transfer
- Policy Development and Analysis
- Capacity building and reform support through technical assistance
- Facilitating partnerships and connectivity by WBG's convening power

**Strategic context and rationale for Seoul Center 3.0:** Lessons learned from the first phase demonstrate the tremendous potential to expand the Korea Office from its current role focusing on knowledge-sharing and partnerships, into a specialized hub with stronger links with WBG operations. MOSF has expressed its support for and appreciation of the Seoul Center’s support to advisory and analytical activities over the past couple of years, and particularly the results of the partnership model to transfer lessons from Korea’s successful development experience and leverage its expertise and institutional capacity. A proposal has
been developed which builds on the highly successful first phase of the Seoul Center to introduce “Seoul Center 3.0” – a significantly expanded and broadened partnership aimed at raising the profile and visibility of the Center and establishing it as a “center of excellence” for the region. This new strategy will introduce both scale and thematic depth, and enable greater global knowledge creation.

A renewed vision to scale response through positioning and comparative advantage: The renewed vision for “Seoul Center 3.0” builds on feedback from Korean partner institutions and responds to the high demand from country clients. The key guiding principles include: (i) Maintain and expand the current support to country programs in EAP; (ii) Focus on Korea’s comparative advantage and increase local presence → higher visibility and stronger partnerships; and (iii) Increase its global footprint and thus impact. Annex 2 lists some of the potential project ideas in a bit more detail.
ANNEXES
KOREA DEPOSIT INSURANCE CORPORATION (KDIC)

- MOU signed on September 19, 2017 (virtual signing)

- KDIC: Established on June 1, 1996 in accordance with the Depositor Protection Act, the KDIC is responsible for protecting depositors and contributing to financial stability by guaranteeing the payment of insured deposits in case of the failure of a financial institution. The KDIC fulfills this mandate through activities such as provision of funding for the Deposit Insurance Fund, early detection of risks and intervention in troubled financial institutions, resolution of failed financial institutions, payment of deposit insurance, recovery of funds and investigation against parties at fault in a failure to seek damages. Also, as part of its knowledge sharing program, the KDIC provides policy consultation, seminars and training for officials in developing and emerging countries to disseminate knowledge in deposit insurance operations.

- The prospective policy areas of collaboration under this Memorandum MOU would be to support:
  a. Promoting financial stability and establishment of efficient financial safety nets;
  b. Fostering strong deposit insurance systems and related regulatory strengthening and capacity development;
  c. Supporting financial inclusion by bolstering confidence in financial institutions, enhancing financial literacy and advancing consumer protection

- The prospective modes of collaboration under this MOU would include:
  a. Technical assistance on the policy areas listed above to national and sub-national authorities in the East Asia and the Pacific region, as well as other regions, to assess and implement necessary initiatives to advance financial sector and markets which will foster efficient real sector growth.
  b. Technical assistance on the policy areas listed above through education, training, workshops/seminars, and other knowledge transfer activities with an aim to support the Parties’ joint efforts and capacity building activities directed at various stakeholders.
FINANCIAL SERVICES COMMISSION (FSC)

- MOU signed on December 27, 2017 (virtual signing)

- FSC: The FSC of the Republic of Korea is vested by the Act on the Establishment, etc. of Financial Services Commission with the mandate to, among other matters, draft and amend financial laws and regulations; supervise, inspect and sanction financial institutions; issue regulatory licenses and approval to financial institutions; oversee capital markets; and supervise foreign exchange transactions conducted by financial institutions to ensure their financial soundness.

- The prospective policy areas of collaboration under this MOU would be to support:
  
  a. Financial stability and integrity
  b. Financial inclusion and infrastructure
  c. Long-term finance
  d. Climate and risk management

- The prospective modes of collaboration under this MOU would include:
  
  a. Knowledge exchange and/or technical assistance on the policy areas listed above to support national and sub-national authorities in the East Asia and the Pacific region, as well as globally, through initiatives to advance the financial sector development and stable growth.
  b. Knowledge exchange and/or technical assistance on the policy areas listed above through training, workshops/seminars, conferences, and other activities with an aim to support the Parties’ joint efforts and capacity building activities directed at various stakeholders.
KOREA FINANCIAL INTELLIGENCE UNIT (KOFIU)

- MOU signed on December 27, 2017 (virtual signing)

- KOFIU: KoFIU, established by Korea’s Act on Reporting and Using Specified Financial Transaction Information, safeguards the transparency and credibility of Korea’s financial markets by managing a robust anti-money laundering and combating the financing of terrorism (“AML/CFT”) system. To this end, KoFIU sets AML/CFT policies, drafts AML/CFT laws and regulations, analyzes and disseminates financial intelligence on suspicious transactions, inspects and supervises financial institutions’ implementation of AML/CFT requirements, and participates in international cooperation with other countries’ financial intelligence units (“FIUs”).

- The prospective policy areas of collaboration under this MOU would be to support:
  a. Improving the transparency and credibility of financial markets by fostering sound and rigorous AML/CFT systems;
  b. Supporting countries to understand and assess their ML/TF risks and vulnerabilities and to take action to effectively mitigate these, including through the carrying out of related National Risk Assessments (“NRA”);
  c. Supporting the development of national AML/CFT strategies and improvement of cooperation, including through collaborations with other related national, regional and global institutions;
  d. Strengthening AML/CFT legislation and institutions;
  e. Improving FIU’s IT systems and the use of financial intelligence; and
  f. Developing the institutional capacity of FIUs.

- The prospective modes of collaboration under this MOU would include:
  a. Technical assistance on the policy areas listed above to national and sub-national authorities mainly in the East Asia and the Pacific region, as well as other regions, to assess necessary initiatives to advance financial sector development and growth.
  b. Capacity development through education, training, workshops, seminars, conferences and other knowledge transfer/sharing activities on areas of mutual interest.
  c. Joint research and diagnostics on areas of mutual interest.
  d. Fostering partnerships with relevant global, regional, and national institutions such as the Financial Action Task Force Training and Research Institute (FATF TREIN) based in Busan, Korea.

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5 FATF TREIN was established in 2016 with the support of the Government of Korea, represented by KoFIU.
Criminals use different channels to conceal money gained from illegal activities, such as corruption, illegal logging, wildlife trafficking, smuggling and tax evasion.

Not only do these activities generate high illicit proceeds, they also contribute to a country’s loss of revenue and negatively affect governance, the environment and tourism.

To counter this problem, countries are increasingly starting to examine the risk such criminal activities pose to their jurisdictions and to understand how to mitigate it. When a country understands its money laundering/terrorist financing (ML/TF) risks -- concealing and moving of criminal proceeds -- the government can focus its human and financial resources to effectively combatting it.
At a recent workshop in Busan, Korea, 44 officials from law enforcement agencies, supervisory agencies, and other stakeholders from the Association of South East Asian Nations (ASEAN) countries and Timor-Leste discussed how to curb dirty money through a risk-based approach to combating illicit financial flows. Countries shared progress they’re making in implementing their respective country action plans to combat illicit financial flows, which are based on national risk assessments.

A national risk assessment is a framework designed to prevent money laundering and combat terrorist financing (ML/TF) by targeting resources where they will have most impact. This approach is in line with the international standards of the Financial Action Task Force (FATF), which recommends that countries identify, assess and understand ML/TF risks within their jurisdiction, and then take action and apply resources to mitigate them.

“Some criminal activities are more important than others in terms of the profits generated,” said Stuart Yikona, Senior Financial Sector Specialist, Finance & Markets Global Practice, World Bank Group.

“On the public sector side, having such an understanding enables the competent authorities to pay attention to high profile crimes, go after high profile criminal networks and recover large sums of criminal proceeds.”

On the private sector side, the national risk assessments enable banks, real estate agents and securities players to better understand the nature of suspicious financial transactions to which they should pay attention.

Since 2012, the World Bank has been providing advisory support to a number of ASEAN countries in carrying out the national risk assessments based on a National Money Laundering and Terrorism Financing Risk Assessment Tool, which the Bank developed.

“The tool provides a systematic approach to analyze the country’s money laundering and terrorist financing threats and vulnerabilities” said Ms. Maria Jose de Jesus Sarmento, a delegate from Timor-Leste. “We also benefit from the World Bank’s technical knowledge and capacity building trainings which not only involve the central bank and the financial intelligence unit, but also law enforcement authorities and compliance officers.”

Participants appreciated how practical the workshop was. “This is not a kind of workshop where you just listen to theories,” said Ms. Sam-Ath Say, a delegate from Cambodia. “It’s really a place where you talk about your own experience since each country is at a different stage. Having everyone come to the same table allows us to share what the problems and achievements are.”

Workshop participants learned what other countries are doing in their jurisdictions to combat dirty money, and discussed how to enhance regional cooperation to combat cross-border criminal activities, such as illegal logging and wildlife trafficking.
Fostering a regional collective action to tackle underlying criminal activities and financial flows remains a challenge for participating countries. In an effort to help countries spur collective action, the World Bank proposed creating a risk tool to map corridors through which dirty money and goods move. However, delegates indicated that a high-level commitment from policy makers would be required to carry out a cross-border corridor risk assessment.

“The workshop highlighted that building trust and confidence among the countries is the first line of defense in the fight against money laundering and terrorist financing,” said Sameer Goyal, Program Manager of the World Bank’s Seoul Center for Financial Sector Development.

“We look forward to closer cooperation with client countries and partners such as Government of Korea in promoting financial integrity within the ASEAN region.”

The workshop took place between March 27 and 30, 2017 and was organized by the World Bank Group with financial support from the Government of Korea.
Risky financial behaviors among Cambodians of the post-millennial generation have become more widespread in the country, especially among the 18-35 age group. While they are important customers for the financial and banking sectors, their behaviors are often dominated by lavish spending and excessive borrowing.

However, this generation is also “techno-savvy” with extensive exposure to social media like Facebook and YouTube, radio, television, the internet, and smart phones. These channels are readily available in urban areas and increasingly accessible in Cambodian provinces.

With this in mind, we thought “outside the box” about ways to help address this issue, and to reach a younger population. Utilizing social media, our Finance and Markets team at the World Bank launched an innovative “Let’s Talk Money” campaign, as part of our overall effort to build financial stability in Cambodia.
In partnership with the National Bank of Cambodia and supported by the Korean Trust Fund, we aimed to address consumer financial issues and influence financial behaviors of Cambodians through the “Let’s Talk Money” radio show. The program broadcasted nationwide three times a week from December 2016 to February 2017 on Women’s Media Center FM102 and their Facebook page.

The radio show attracted over one million listeners nationally. On Facebook, it got an average of 4,000 views per show. Nana, the DJ of the program, is a prominent Khmer radio personality with over 500,000 Facebook followers and advocates for women to take control of their household finances and to make sensible financial choices.

The show’s messages resonated far and wide among Cambodians. It raised sensitive questions about household finances and money management and provided practical answers to difficult money-related questions facing any Cambodian family.

Following the show’s take-off, we stepped further outside the box by marrying talking about money to singing about money. We invited Cambodia’s most popular young performer, Oun, to sing about “Luy”, which means money in Khmer. The song highlights the singer’s own experience, the mistakes he made, and the lessons he learned. Keeping the messages light and funny, he sang about managing money, spending no more than what you make, avoiding unnecessary borrowing, and saving money.

Posted in May 2017 on Facebook and YouTube, the video became an overnight sensation throughout the country. By June 2017, the video reached over one million viewers, a high figure compared to other popular songs in Cambodia. Over 30,000 people have shared the music video on Facebook. The comments were positive with people saying: this is a meaningful song, need to be more careful with money, have to avoid overspending and debt, stop being crazy about money, think twice before spending, save money, and more.

Through our experience of engaging a radio program and pop artist in Cambodia, we found that music, though unconventional, has a lot of potential to reach the new generation. The results so far have confirmed that radio and engaging videos on social media can influence people’s financial behaviors and strengthen Cambodia’s financial capacity.

Together with traditional activities, such as policy measures to manage risks and financial sector stability, going directly to the financial consumers with a message on prudent financial management can also serve to further achieve our financial objectives. The effect of this method for outreach will need to be carefully monitored to learn more about its impact.